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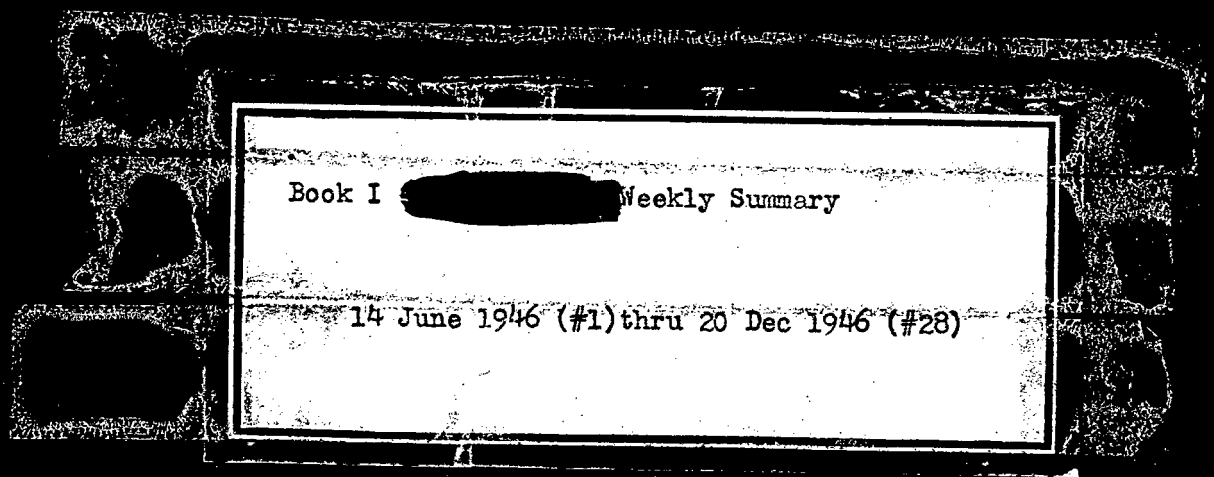


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## The Soviet Outlook in Iran

Within a week following their entrance into Azerbaijan on 9 December, Central Government troops had virtually completed their conquest of the province. The Tabriz Government had collapsed, and national troops had occupied key points on the Azerbaijan-Soviet frontier. Furthermore, Qazi Mohammed (the rebel who had established a Kurdish "Republic" in Western Azerbaijan) and other Kurdish leaders had submitted to the Central Government and declared their loyalty to Qavam.

The Soviets are confronted not only with the Azerbaijan debacle but also with the greatly reduced effectiveness of the Tudeh Party (their chief Iranian tool) and the increased strength of all anti-Soviet elements. Accordingly, the USSR may now be expected to abandon direct action in Iran in favor of intensified infiltration and clandestine activity. The Soviets doubtless will also use the projected oil concession as an important means of penetration.

The USSR is likewise in a position to exert considerable economic pressure on Iran through the dependence of the Northern provinces upon the Soviet economy and the existence of large British concessions in the South. It is to be expected that Qavam will attempt to maintain friendly relations with the USSR and, if necessary, will support economic concessions which do not infringe upon Iranian sovereignty.

The Soviets, however, have suffered a serious set-back in Iran and to some extent have lost face in the Near East. Iranian independence appears to have been re-established unless the USSR is prepared to resort again to overt action and to risk UN intervention.

## Soviets Reverse Their Tactics in Austria

The USSR's tactics in Austria have undergone drastic revision. After indicating that its forces would be withdrawn from the country by the third quarter of 1947, the Soviet Command concurred in two important US-supported resolutions which it had hitherto strongly opposed in the Allied Council. It agreed (1) to place both indigenous and imported food resources at the disposal of the Government for distribution throughout Austria; and (2) to settle the denazification issue along lines acceptable





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to the US. This latter concession is of special significance because the Soviets previously indicated that they were dissatisfied with the results achieved by the Austrian Government and that they would remain in occupation until they considered the program completed. They will now be unable to use the denazification issue in order to block consideration of an Austrian treaty.

The Austrian Government is planning, in January, to enter into bilateral negotiations with the USSR on the very difficult subject of German assets in eastern Austria, provided the US, UK and the three parties to the Austrian coalition Government concur. The Soviets have consistently refused to discuss the assets question in the Allied Commission and are in disagreement with the Austrians as to what constitutes legitimate German assets under the Potsdam agreement. The Austrians, however, are now proposing bilateral negotiations, in the belief that the Soviets are now in a frame of mind to make substantial concessions for the sake of a quick settlement.

The USSR now apparently is on the defensive in Austria and desires to secure its economic position by reaching an agreement with the Figl Government before discussion of Austrian peace terms this coming spring. Moreover, it has weakened its bargaining position by having given advance notice of its intention to withdraw by the third quarter of 1947.





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## Britain's Concern Over Its Influence in China

The British Government's decision to follow up its recently dispatched trade mission to China with a Parliamentary "good-will" mission in 1947 reflects Britain's desire to restore its influence and to counteract the present "monopolistic" US position in that country. These missions will seek to lay the groundwork for the revival of British commercial interests in China on a long-term basis. If Britain's present policy of cooperation with US in China is subordinated to its efforts to reestablish its commercial position, the US mediation program may be embarrassed.

It is doubtful that UK-China trade could reach much more than token volume in the near future, both because of China's internal transportation, export, and financial difficulties, and because of Britain's strained financial position and her urgent need to offset with increased exports her current heavy unfavorable balance of trade with the Western Hemisphere. The fact that Britain has so little to sell and is unable to grant extensive credits will prevent these missions from making any immediate substantial trade arrangements. The British hope instead to build up the "right atmosphere" for a substantial, long-range market by volunteering technical and industrial assistance, and by convincing the Chinese that it would be mutually advantageous if the British should reassume a considerable part of the important role they played in China before the war.

The main objective of these British missions--to promote commercial interests and trade--represents one phase of the dual policy which the British Government is now following towards China. The other phase is "to keep in step with the China policy of the US" insofar as this consists in giving moral support to China's Central Government and in encouraging Chinese governmental development on a broadly democratic basis. Thus far, these two phases have not been in conflict, and the British have in effect implemented their "keep in step" program by following the US in denying munitions to the Chinese Government.

Conflict may develop, however, if the British fear of US "monopolization" in China leads them to place primary emphasis on the commercial phase of their policy. This might result in serious embarrassment to US mediation efforts in China, in which the withholding of certain economic support under present conditions is a vital factor. This issue, in fact, may well arise over the question of rehabilitating the Canton-Hankow RR, which is partly financed by British capital. Although the





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US Government has not yet made a definite decision regarding the advisability of granting a US credit to rebuild this RR, the UK reportedly has already shipped steel bridges to China for this purpose.

Revolutionary Tendencies in Venezuela

The Venezuelan Government, fortified by a substantial victory in the recent elections and assisted by a first-rate intelligence service, succeeded in rounding up sufficient support in the Venezuelan Army to put down a revolt of Army elements which broke out on 11 December. Although originally backed by a large part of the Army, the revolt was doomed to failure as soon as the Government used its knowledge of the plot to persuade key officers to abandon the attempt, and sent loyal troops to round up those forces which actually revolted.

This revolt was an attempt by moderate and conservative elements, many of whom had supported the Government, to wrest control of the country from the socialistic Accion Democratica (the Government Party). It was one of two subversive movements which have threatened the stability of the country. The second movement, involving ex-President Lopez Contreras and many of his supporters in exile, is still in the organizational stage. In view of the decisive results of the recent election, it may well be a last-resort attempt of the ultra-conservatives to regain power. According to President Betancourt of Venezuela, who already is aware of the plan, an expedition is being organized in the Dominican Republic to invade Venezuela. If this plan is perfected, it will receive the assistance of many of the supporters of last week's revolt, but the Government, with advance knowledge and popular support, should be able to survive this new threat.



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## Critical Anglo-Burmese Negotiations

Unless the British Foreign Office takes immediate steps to announce its recognition of the present Burmese Executive Council as a national or an interim government, Burmese leaders will probably issue orders for a general protest strike which in turn will lead to an armed uprising.

In an ultimatum issued in November, the Anti-Fascist League (the dominant party in Burma) demanded: (1) British guarantees that the present Executive Council would be designated a national government by 31 January 1947, and (2) a British declaration that Burma would be independent by 31 January 1948. In view of the urgency of the situation, Governor Rance sent a representative to London to plead for immediate action. As a result, the British Foreign Office has decided to receive a Burmese delegation in London in January and has sent the Under Secretary of State for Burma to Rangoon to arrange the necessary details.

The Anti-Fascist League must stand or fall on its 31 January deadline since its members in the Executive Council have threatened to resign, if League demands are not met by that time. In such event the entire Executive Council will be forced to leave office and leadership in Burmese affairs will pass to the recently formed Peoples Front composed of Communists and other extremists who feel that League policies are inadequate to obtain independence for Burma.

## CTAL Opposes Hemisphere Military Standardization

On 13 December the Executive Committee of the CTAL (Workers' Confederation of Latin America), meeting in Costa Rica, adopted a resolution condemning the US-sponsored inter-American program of military standardization. (A bill to implement the US portion of this program was introduced during the last session of the US Congress.) The majority of the rank and file of the CTAL, the only international labor organization in Latin America, are non-Communists, and many of the affiliated Unions are under non-Communist control; but the outstanding leaders of the organization are closely associated with the Communist movement. Particularly in the field of international affairs, the CTAL is often the powerful advocate of Communist policies. (See Weekly Summary, 2 August 1946).



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The Executive Committee's resolution opposes the standardization program on the grounds that: (1) it threatens the sovereignty of the Latin American countries by involving them in a system of alliances no longer needed under the United Nations; (2) the armed forces of the Latin American countries would be dominated by the US, and this would lead to US economic control and of the countries and their reduction to colonial status; and (3) the plan still lacks US Congressional sanction, which has been withheld because of opposition by the peoples and governments of Latin America.

The resolution reflects the Communist line on the standardization program. Soviet policy for some time has sought to hamper any Hemisphere defense project that would strengthen the strategic position of the US and all Communist-influenced elements in Latin America can be expected to follow the Soviet line in opposition to this program.



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## The Azerbaijan Capitulation

The reported capitulation of the "Democratic" Government of Azerbaijan to the Iranian Central Government on 11 December apparently represents a complete victory for the Central Government. This Government success probably is the result of Premier Qavam's forceful actions and of the USSR's unwillingness to increase its support to the "Democrats", thereby risking charges of interfering in Iranian internal affairs. Disinclination of the people of Azerbaijan to fight in support of the "Democratic" Government may also be a factor.

The surrender probably means that Azerbaijan will lose its semi-autonomous status and that Qavam, who now can control the elections, will return to Parliament only those representatives from the Province of whom he approves. It is also possible, in view of the strengthened position which Iranian moderates and conservatives would gain from this victory, that the Soviet-Iranian oil agreement of 4 April might be revised by the new Parliament to provide greater protection for Iranian interests before the new Parliament.

On the other hand, the capitulation may be the result of a negotiated compromise, by which the Central Government gains greater control over the Province and avoids the risks of a dubious military campaign and possible Soviet intervention, but Azerbaijan retains certain autonomous rights.

Whichever interpretation is correct, it may be assumed that the Azerbaijan issue is temporarily settled and that it will not have to be considered in the Security Council.



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## Sidky's Resignation and the Anglo-Egyptian Treaty

The resignation of Prime Minister Sidky Pasha on 8 December has dimmed the hope for an early conclusion of the Anglo-Egyptian Treaty. Sidky's recent vote of confidence in the Chamber of Deputies and his efficient control of the internal situation had probably given him sufficient prestige to settle the remaining differences with the British over the Sudan and to press the negotiations towards a successful conclusion.

Sidky's successor, Nokrashy Pasha, however, is not regarded as a strong man. When he held the premiership earlier this year, he made no progress in the treaty negotiations and was unable to maintain internal order. The WAFD, Egypt's largest party, which has been out of the Government for three years, may now be able to consolidate all anti-Government factions and thus defeat the treaty and return itself to power.

## London Talks Fail to Break Indian Impasse

The conversations in London between Indian leaders and the British Government regarding implementation of the British plan for Indian self-government (See Weekly Summary of 6 December) failed to end the stalemate. Nehru made no concessions on behalf of the Congress, and Jinnah merely restated the Moslem League's position.

On 7 December the British Government upheld the Moslem League's interpretation of the disputed provisions of the British plan and unequivocally asserted that the UK Government could not contemplate forcing upon any unwilling part of the country a constitution framed by a Constituent Assembly in which a large section of the population was not represented. Moslem League reaction to the British statement has, of course, been favorable. The Congress Working Committee has issued no formal pronouncement, but individual members of the Congress have bitterly criticized the statement and have denounced it as contradicting an earlier declaration by the Prime Minister that no minority should be allowed to veto progress.

In spite of the apparently irreconcilable differences between the two Indian parties, two possibilities hold out a faint hope for an eventual settlement. First, the British statement specifies that any provision in the British plan about which there is divergence of opinion in the



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Constituent Assembly should be referred to the Federal Court of India. If the Congress and the League should agree to such procedure and declare their willingness to accept the Court's decision, a solution might be reached. Secondly, the present Assembly, which convened as scheduled on 9 December, may decide to adjourn until spring and provide the opportunity for further negotiation between the two parties. The US is seeking to persuade Nehru and the Congress Party to accept British-Moslem interpretation of the disputed provisions of the plan so as to facilitate Moslem League participation in the Assembly. Meanwhile tension is increasing throughout India, and unless some agreement is reached, India will be faced with widespread strife and possibly civil war.

Developments in International Air Transport

The following appear to be the most important current developments in the increasingly active field of international civil air transport.

Afghan-Iranian Air Agreement--US technical personnel will apparently participate in prospective air transport operations between Iran and Afghanistan, an area in which the UK and USSR have vital interests.

By signing a preliminary bilateral air agreement with Iran, the Government of Afghanistan has departed from its previous policy of discouraging all requests from neighboring states for airline concessions. It had discouraged such requests in the hope that Afghanistan would be integrated into a US round-the-world trunkline, but the terms of the recent US-Indian air transport agreement left little prospect for the inclusion of Kabul. Foreign participation in operations between Afghanistan and Iran is limited by a provision in the agreement that either party can withhold or revoke the contract of a designated airline if substantial ownership and effective control are not vested in nationals of the other contracting party. This provision will not prevent Iranian Airways, in which TWA has only a 10% interest, from operating as the designated carrier for Iran. TWA also expects to conclude a management contract with Afghanistan for the operation of the designated Afghan airline.



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The USSR, on the other hand, has no air agreement with Afghanistan and has been unable to obtain Iranian consent to the formation of a Soviet-Iranian company. It therefore appears unlikely that the USSR will soon participate in air transport operations into Afghanistan. That the British have not attempted, even indirectly, to participate in such an air route may be explained by their present deficiency in modern transport aircraft.

US-Portuguese impasse--An impasse has arisen over the use of the Azores as a mid-Atlantic stop for US airlines. The Portuguese have insisted, as a condition to granting the request, that flights over the Iberian Peninsula stop at Lisbon. Foreign Office officials have privately admitted that Portugal intends to use the Azores as a lever to raise Lisbon into an important position as an international air traffic center. These tactics also reveal the intense rivalry between Portugal and Spain in the race for a key position in international air networks.

In order to obtain a satisfactory southern route for winter flying, the US may reluctantly agree to stops at Lisbon until such time as American transports can safely by-pass the Azores, and thus make Portuguese cooperation nonessential.

Danish Air Dilemma--The US and UK are continuing to apply pressure on the Danish Government to prevent it from entering into a non-reciprocal air agreement with the USSR. The Danes are vulnerable to such pressure because their commercial service to the Near East depends upon non-traffic stops in the US and British zones of occupation in Germany. The Danes, however, have clearly indicated that they cannot disregard pressure from the USSR. The issue thus remains in doubt.



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## SPECIAL ARTICLE

### 1. Communist Maneuvers in Hungary



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# COMMUNIST MANEUVERS IN HUNGARY

Summary: The Hungarian Communist Party and the Soviets are making a persistent effort to split the Smallholders' Party in order to strengthen their control over Hungary prior to the withdrawal of Soviet troops and the signing of a peace treaty. There is disagreement within the majority Smallholders' Party as to concessions which it must make to the Communists to avoid Soviet retaliation. If Premier Nagy can resolve these differences within his Party, he may be obliged to acquiesce only to a mutual assistance treaty with the USSR.

Renewed efforts by the Soviets and the Hungarian Communists to dominate Hungary prior to the withdrawal of Soviet troops have precipitated another serious crisis for Premier Nagy's coalition Government. The Soviets, despite their effective control of the country's major industries through joint Soviet-Hungarian monopolies, recognize that Communist strength is not sufficient to insure a Government "friendly" to the USSR. The Communist Party is therefore making a persistent effort to split the majority Smallholders' Party, which controls 60% of the National Assembly and is therefore an effective brake on Communist encroachment.

Although all parties, including the Communists, agree on the need to maintain a coalition Government, the Communists are working to increase the number of parties in the coalition in order to improve their relative position and increase their influence. They have therefore encouraged the formation of the new Freedom Party, which is composed of rightist elements purged from the Smallholders' Party. The Communists have also made numerous demands upon the Smallholders primarily aimed at causing dissension between the right and left wings of the Party. These demands include: (1) expulsion of additional right wing members; (2) postponement of local county and municipal elections; (3) changes in the electoral law which would disenfranchise many "reactionary" Smallholder supporters; (4) curtailment of the political activity of the Catholic Church, and particularly its control of the educational system; and (5) abandonment of the Smallholders' plan to establish "Grange" organizations which would be independent of the Communist-dominated Trades Union Council. In addition to these political maneuvers, evidence



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exists that the Communists and the Soviets are deliberately obstructing the country's economic rehabilitation in order to capitalize on the resulting unrest.

The Communist plan to divide and rule has partially succeeded. President Tildy and Premier Nagy, both Smallholder leaders, reportedly disagree as to what concessions they must make to the Communists to avoid Soviet retaliation. Tildy apparently believes that the Soviets will insist on full compliance with Communist demands as the price for preservation of the Smallholders' majority position in the Government. Nagy, on the other hand, believes that further submission to Communist pressure would be as detrimental to the Smallholders' Party as any possible Soviet retaliation. Nagy also believes that the Communists may be bluffing, since (1) they would probably not risk a fair test of strength at the polls; (2) they are as anxious as the Smallholders to maintain the coalition Government; and (3) there are indications that the leftist National Peasants and Social Democrats may themselves revolt against Communist domination of the Leftist Bloc.

The future of the Smallholders' Party appears to depend largely on Nagy's ability to maintain a united front within the Party to resist the Communists' demands and on the present Government's ability to survive a winter of inevitable economic hardship. In the last analysis, however, the Kremlin's attitude will be the deciding factor. Although the Soviets will not relax their efforts to strengthen the Communist Party in Hungary before signing a peace treaty or withdrawing their troops, there are indications that they may be unwilling to take extreme measures if the Smallholders' Party refuses to meet the Communists' demands. They may then be forced to settle temporarily for a mutual assistance pact with the present regime in the hope that it would cooperate sufficiently to protect immediate Soviet military and economic interests.



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## Militarization of Bear Island and Spitzbergen

The Soviet Union may shortly provoke a new international controversy by attempting to formalize and implement an agreement reached in principle with Norway early in 1945 for the "joint defense" of Bear Island and Spitzbergen. In October 1946 Molotov suggested at Paris, to Foreign Minister Lange of Norway, that the bipartite discussions be resumed in New York during the present session of the General Assembly.

The issue cannot be settled, however, on a bipartite basis between Norway and the USSR. The permanent neutrality of the Svalbard Islands, which include Bear Island and Spitzbergen, was established by a treaty signed at Paris in 1920 by nine nations, including the US and UK. The USSR adhered in 1935. The treaty contained no provision for abrogation or modification. Furthermore, those signatories which renounced claims in this area can vigorously oppose militarization of the islands on the grounds that the area's neutrality was a direct price of their participation.

After the 1945 negotiations between Norway and the USSR, Norway prepared and presented to the USSR the text of a proposed joint declaration which would have announced the intention of the two powers to "abrogate" the Svalbard treaty and to proceed with the "joint defense" of the area. It is significant, however, that it was the Norwegians who insisted upon the inclusion in the draft of the proposed joint Soviet-Norwegian declaration of intentions, the provision that the abrogation would require consultation with the other interested powers, and that the defense program would have to accord with the arrangements of "an international security organization." No further action has since been taken by either party, except Molotov's suggestion in Paris regarding a resumption of discussions in New York.

The failure of the Soviets to expedite negotiations probably reflected a hope that subsequent events, such as the discussions now going on in UN on the militarization of trusteed areas, would strengthen the Soviet position, and a conviction that the Norwegians had become too deeply involved to withdraw. Not only does the Soviet delay probably reflect a distaste for international consideration of the Svalbard problem, but it is likely that the USSR has been quite willing to await the outcome of US negotiations for air bases in Iceland, and the complete withdrawal of US troops from that country.

The position of the Western Powers, should they decide to oppose Soviet intentions in the Svalbards, will become increasingly difficult as they



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press for the right to fortify trusteeship areas. The USSR may be expected to exploit fully the insistence of the US on protection in outlying areas. On the whole, it would appear, however, that the USSR can realize these aspirations, if at all, only as an element of a broader understanding with the Western Powers.



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## Current Soviet Propaganda

Among the more conspicuous trends in current Soviet propaganda are a vigorous campaign in support of Molotov's disarmament proposals, special emphasis on the need for defense against "Capitalist encirclement," attacks on both foreign and domestic US policy, a cautious championship of the Arab cause in the Middle East, and hints of a return to a more militant anti-religious policy within the USSR.

The Soviet proposals for disarmament have been presented as convincing proof of the USSR's peaceful intentions, and have been sharply contrasted with the "reactionary," "imperialistic" and "militaristic" policies of the US and the UK. The US proposal for Pacific island trusteeships has been singled out as a particularly glaring example of the sinister designs of the West.

In contrast to the disarmament theme, however, official orators at the celebration of Soviet Artillery Day on 24 November urged that "capitalistic encirclement" necessitated an increase in the USSR's armed forces. The audience was told that many people in the Capitalist world were plotting war against the Soviet Union because of their "envy of Soviet internal and international achievements."

The US domestic scene is described as chaotic, dominated by strikes, rising prices, scarcities of food and consumer goods, and a general resurgence of reactionary influence in the Government. A severe depression is predicted for 1948. In the midst of these forebodings of Capitalist collapse, "the average American" according to IZVESTIA's New York correspondent "hears the voices of Soviet representatives (at the UN) and his sympathies are on the side of the principles which they defend."

US and UK policies in the Middle East have been receiving increased attention, and in its handling of this subject the USSR appears to be increasingly committed to a championship of the Arab cause.

Within the USSR there has been a subtle revival of anti-religious propaganda. It is possible that Soviet leaders have been disturbed by the spontaneous enthusiasm demonstrated by the people in Church affairs, as contrasted with their recent apathy toward Communist dogma. If this is the case, the Kremlin may be expected quietly to promote atheism within the USSR, while continuing to use the Russian Orthodox church abroad as an instrument of foreign policy.



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## Czech-Hungarian Minority Dispute

Prospects for a permanent solution of the Czech-Hungarian minority dispute have diminished since the Paris Peace Conference decided in September to leave settlement to bilateral negotiation. Implementation of the February agreement for an equal exchange of nationals between the two countries has bogged down in an atmosphere of increasing mutual distrust and animosity. Each country is currently attempting to blame the other for the deterioration of border relations (several recent cases of violence have been reported), maltreatment of their respective nationals, and failure to expedite the exchange.

The desire of both countries to rid themselves of all minority groups is a direct result of war-engendered nationalism, which already has found expression in the expulsion to Germany of Sudetens from Czechoslovakia and Swabians from Hungary. Czechoslovakia desires to expel an estimated 600,000 Hungarians and to repatriate an estimated 200,000 Slovaks. Hungary's insistence that for economic reasons it could make no more than a one-for-one exchange prompted the February agreement to make an equal exchange of 200,000 persons. Hungary, however, has also insisted that Slovak repatriation be on a voluntary basis and that Czechoslovakia grant special minority rights to the Hungarians remaining in Czechoslovakia. Less than half of the Slovaks in Hungary so far have indicated any desire to return to Czechoslovakia. Moreover, Hungary now accuses Czechoslovakia of bad faith in transferring Hungarians to western Czechoslovakia (to take the place of expelled Sudetens). Czechoslovakia, on the other hand, accuses Hungary of deliberately inciting its nationals in Slovakia to provoke disturbances, of delaying the exchange of nationals in order to justify an ultimate border revision in favor of Hungary, and of failing to reserve land vacated by expelled Swabians for incoming Hungarians from Czechoslovakia.

The dispute might well be solved if Czechoslovakia were to transfer to Hungary a strip of land predominantly inhabited by Hungarians. For example, the transfer to Hungary of 3,000 square miles of Czech territory--the most productive land in Slovakia--would leave in each country an equal number of minority nationals who could then be exchanged on a one-for-one basis. Czechoslovakia, however, will almost certainly never willingly cede any part of its territory and, in fact, attempted to forestall Hungarian territorial demands at Paris by demanding a bridgehead at Bratislava. Big Power agreement to cede this land to Czechoslovakia, however, has merely



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added to the complications of the minority exchange by giving to Czechoslovakia an area in which the population is 60% Hungarian.

Tension between the two countries has now become so acute that bilateral settlement of the problem will be difficult. Both countries will probably seek Big Power support in an attempt to reach an agreement. Failure of Hungary even to begin expulsion of Slovaks under the February agreement lends credence to the theory that Hungary still hopes to use its minority in Czechoslovakia to obtain territorial concessions, and will seek US support for the fulfillment of its aims. The controversy has been particularly troublesome to the USSR, which is anxious to prevent violence in its sphere of influence. The Communist Parties in each country have been forced to take opposing views and neither can therefore claim Soviet support. The Czech Communists are anxious to expel conservative Hungarian peasants, who likewise are unacceptable to the Hungarian Communists. Concerted action by the great powers appears unlikely in view of the reluctance of the Soviets to take a firm position. Possible US-USSR conflict over settlement of the dispute may add still another obstacle to an early solution of the problem.





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## The Success of Britain's Export Drive

By the end of this year, the British will probably have attained one of their most important postwar economic objectives: an export rate 75% greater than that in 1938. If this level of export can be maintained, as seems likely, a favorable balance of trade should be achieved next year. Few observers had expected such rapid progress; four years after World War I Britain had regained only three-quarters of its 1913 export volume.

Although some credit is due the planning of the Churchill Coalition Cabinet (which had set the postwar export goal) and the character of the British people themselves, this success is largely the result of the incumbent Government's policies and administration. The Government has ruthlessly continued, with only slight modifications, wartime controls over the economy and the "austerity" program for the people. It has managed industrial reconversion efficiently and stabilized labor-capital and wage-price relationships so that few serious strikes have occurred; work-days lost to strikes since V-J day have totaled about 10% of those in the corresponding period after World War I. It has made certain that factories manufacturing for export obtained first priority on raw materials and manpower, and it has forced goods of all categories into export channels at the expense of the domestic market.

Challenging domestic problems remain to be solved--coal production, manpower shortage, housing, industrial modernization--but the critical issue of financial recovery through industrial exports has so far been effectively handled by the Labor Government, and an impressive beginning has been made toward economic recovery.

## Pro-US Iraqi Cabinet

The new Cabinet recently formed by the elder statesman Nuri as-Said, in contrast to its predecessor, is friendly to the US and considered one of the best Iraq has had in years. An astute and able politician, Nuri has long been friendly with the British, popular in his own country, and persona grata with Turkey, where he conducted recent treaty negotiations. He is also a prominent backer of the Arab League. His Cabinet appears to be fairly representative, including Kurds, both Shia and Sunni Moslems, and representatives from the Leftist National Democratic Party and the Liberal Party headed by ex-Premier Tewfik-as-



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Suwaidi. Nuri has announced that elections will be held soon in order that a new Parliament can be convened within four months as provided in the Constitution. His Cabinet is expected to continue under the new Parliament.

The outgoing Premier, Arshad al-Umari, had aroused considerable opposition by his repressive and autocratic rule. Arshad's bitterly anti-Zionist attitude made him extremely antagonistic to the US. Nuri, on the other hand, has assured US officials that he does not intend to allow the Palestine issue to affect his relations with the US and has given certain informal assurances regarding pending air agreements.



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# SPECIAL ARTICLES

1. The Current Political Crisis in India
2. Economic Chaos Breeds Civil Unrest in China



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# THE CURRENT POLITICAL CRISIS IN INDIA

The political impasse in India recently became so acute as to require discussions in London between Attlee, Wavell, Nehru and Jinnah on the very eve of the proposed opening of the Constituent Assembly. The impasse is a product of differences in interpretation of the British Cabinet plan as announced last spring.

On 16 May the Viceroy announced the British Cabinet Delegation's plan (the Cabinet Delegation's and Viceroy's award) for the creation of a self-governing Union of British India and the Indian States. The award provides that the new Union of India would have power to deal with Foreign Affairs, Defense, and Communications, together with the necessary provisions for financing these activities. The Provinces of British India would have vested in them all powers other than those pertaining to Union subjects and all residuary powers. The Indian States would retain all powers not individually ceded to the Union.

The award provides further that a Constituent Assembly should be convened as soon as possible to draft the constitution for the Union, and, with its members acting in specified groups, to draft new constitutions for the Provinces and for combinations of Provinces. It was subsequently announced that the Assembly would convene on 9 December.

When the Assembly convenes, the Provincial delegates will meet in three arbitrarily created groups. Group A, comprising the delegates from six predominately Hindu Provinces; Group B, primarily Moslem but containing a bitter Sikh minority as well as many Hindus; Group C, comprising the delegates from Bengal with a Moslem majority and Assam with a Hindu majority. These groups would frame new Provincial constitutions, and, if the delegations constituting the groups so decided, constitutions for any groups of Provinces desiring to form confederations within the Union. The Provincial delegates, in conjunction with the Indian States' delegates, would then frame the constitution for the Union of India. The constitutions of the Union and of the confederations would provide that any Province could, by a majority vote of its legislative assembly, call for reconsideration of the terms of the constitution in question after an initial period of ten years, and at ten yearly intervals thereafter. Furthermore, the constitutions would permit any Province to withdraw from a confederation as soon as the new constitutional arrangements have come into operation.





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The Constituent Assembly would also have power to decide whether the new Union of India would remain within the British Commonwealth or would become - immediately upon conclusion of a treaty with Great Britain - an independent state. It was also announced in the award that the Viceroy would shortly form an interim government in which all portfolios would be held by Indian leaders having the full confidence of the Indian people.

Accordingly - after much discussion between the Viceroy, the Congress Party, and the Moslem League - Pandit Nehru, then President of the Congress Party, was asked to form a government. This government took office on 2 September and included Congress and minority representatives. The Moslem League refused to participate.

On 15 October the Viceroy announced that Jinnah had consented to Moslem League participation in the interim Government. As a result, the present Executive Council is composed of six members from the Congress Party, five from the Moslem League, and three from the minorities (one Sikh, one Parsee, and one Scheduled Castes). Jinnah made it clear, however, that Moslem League members were participating only in order to watch over Moslem interests.

So marked has been the lack of cooperation between the Moslem League and Congress members of the Council that the two groups have met separately, with the League members refusing to approach Nehru (vice president of the Council) other than through the Viceroy (the Council's president).

The present crisis was caused by Jinnah's announcement late in November that Moslem League members would not attend the Constituent Assembly if the latter meets as scheduled on 9 December. He alleged that under present disturbed communal conditions the Assembly could not act constructively, and he requested that the meeting be postponed until spring. The real basis for Jinnah's action, however, appears to be the difference of opinion between the League and the Congress over the powers which the three groups will exercise in drafting the Provincial and Confederation Constitutions.

As interpreted by the League, the provisions of the award would permit the members of any group to frame the constitutions of the several Provinces within the group and to create a confederation or confederations



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among those Provinces. This interpretation is in accord with the British view and constituted a concession to Jinnah by the Cabinet Delegation; in Jinnah's words, there is contained therein "the germ of Pakistan." Thus, group C, for example, with a majority of Moslem delegates, could so frame the constitution of Assam through embodiment of the principle of weighted representation that any legislative assembly in Assam would contain a majority of members from those elements within the Province favorable to confederation with Moslem-controlled Bengal.

On the other hand, Nehru and the Congress insist that if any Province finds itself about to be coerced into a confederation or objects to the draft of its new constitution, it may withdraw from its group (and presumably join the deliberations of either of the other two groups). Congress further maintains that once the Constituent Assembly convenes, the representatives may act in accord with their own wishes, subject to interpretation of the provisions of the award by the Federal Court of India. Jinnah and the League insist, however, that the Assembly follow the letter of the award and that any question of interpretation be referred to the Viceroy. Jinnah requests that the British declare in unequivocal terms that they will not implement any constitution which does not embody in every respect the provisions of the award. He insists that the Congress has never unreservedly accepted the award and argues that otherwise the Assembly, with its large Hindu majority, could invalidate such safeguards as were given to the Moslems.

As a result of this impasse, the Viceroy was summoned to London and instructed to invite representatives of the principal parties to accompany him. Jinnah immediately accepted the invitation; Nehru, after much hesitation, agreed to make the trip provided arrangements were made for his return to India by 9 December.

The outcome of these conversations is, of course, uncertain. To permit the Assembly to meet under complete Congress domination would almost certainly give rise to further and extremely serious "direct action" by the Moslems. Postponement of the Assembly as requested by Jinnah would result in renewed and widespread charges against the British of bad faith and wilful postponement of promised self-government in India. Jinnah can be expected to capitalize on the Hindus' great eagerness for independence and seek concessions from the Congress by dilatory tactics. Though many believe that he would prefer to fight, it has been suggested that,



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given the choice, he would permit League participation in the Assembly rather than risk the imposition of Hindu-drafted constitutions. For Nehru and the Congress, the risks are possible further delay with its inevitable strife, or concessions which may materially increase the likelihood of eventual establishment of Pakistan.

For the British, concession to either party would appear to invite further disorder and bloodshed. The most practical solution of a nightmarish situation might well be to convene the Assembly as scheduled and as demanded by the Congress, after confirming Jinnah's interpretation of the disputed provisions of the award - which in the main appears to coincide with the British view on the subject - and after proclaiming that only constitutions which comply fully with the provisions of the award will be implemented. This would openly place any party which resorted to obstructionist tactics in the position of impeding India's march toward independence.





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## ECONOMIC CHAOS BREEDS CIVIL UNREST IN CHINA

Shanghai has recently been the scene of violent though brief civil demonstrations against police enforcement of the ban on street trading. Reports from that city indicate that the demonstrations were incited by anti-Government elements seeking to embarrass the Central Government during the National Assembly session. An important contributing factor, however, is the growing civil unrest caused by further deterioration in Chinese economic conditions. The full effect of this deterioration will be felt in Chinese urban centers during the coming winter. The Shanghai demonstrations may thus prove to be only the forerunner of a series of riots and demonstrations in many Chinese cities.

The economic deterioration in recent months can be ascribed mainly to the increased tempo of Nationalist military operations preceding the cease-fire order, and to the corruption and maladministration that have chronically sabotaged Chinese remedial measures. The Central Government has continued to finance military operations largely by the inflationary issue of new currency which was accelerated substantially this fall. Mounting inflation has multiplied budgetary requirements in money terms and has continually led to upward revisions in national expenditure estimates. The 1946 expenditures, originally set at CN $2.4 trillion, will actually reach CN $5.0 trillion by the end of the year. Present estimates for 1947 envisage expenditures of at least CN $6.0 trillion. The Government has increased tax rates as much as tenfold in certain categories and expects to derive over three times as much revenue from taxes in 1947 as it did this year--an extremely optimistic hope.

The disastrous effects of accelerating inflation, compounded by corruption, maladministration, rampant speculation, and disrupted transportation (the direct result of the civil conflict), have been felt throughout the Chinese economy. Activity in many industries is approaching paralysis, with liquidations and bankruptcies mounting. Even the cotton mills, which have been more active than other industries, are operating at only half their prewar capacity. Unemployment has grown rapidly; in Shanghai alone, the Chinese estimate that 1,300,000 persons are now out of work. In that city, the cost of living in terms of national currency, which stood at 4,000 times the 1936 level in July, is now near the 5,500 level. Similar increases have taken place in other major cities. While reliable statistical evidence is lacking, there is no doubt that workers' salaries and wage rates generally have been lagging far behind the cost of living.





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A continuing shortage of coal--China's principal fuel for domestic, industrial and transportation use--will further curtail factory operations and inflict added hardships on the people in leading Chinese cities this winter. Fully one-half of all the coal currently being produced at the Kailan mines in North China (major supply point for Shanghai, Tientsin and Peiping) is being piled up at the source as a result of repeated Communist attacks on the rail approaches to the mines.

Any real postwar recovery in agriculture has been blocked by the inflation, disrupted transportation, and such basic agricultural ills as tenancy abuses, inadequate agricultural credit, technological backwardness, excessive taxation, lack of fertilizers, and maladministration. This season's harvest of foodstuffs is generally good. Increased arrivals of rice in Shanghai and other cities provide the one bright spot in an otherwise black economic picture. Distribution difficulties and speculation, however, may change this trend during the coming winter. Floods and disrupted transportation already have created serious food shortages in North China, Kwangtung and Kwangsi. China's major agricultural exports--tung oil, wool, silk, and tea--are scarcely moving. The Government's apparent intention to follow the Chinese-American Agricultural Commission's recommendations for basic agricultural reform is encouraging. However, even under the most ideal conditions, governmental reform holds little promise of improving the near-term outlook.

China's heavily unbalanced foreign trade position has adversely affected both domestic industry and the nation's financial strength. Foreign imports, exclusive of UNRRA goods, exceeded exports in a $5\frac{1}{2}$ to 1 ratio for the first ten months of 1946. In that period, the Government attempted to correct the trade balance by twice depreciating the CN $ in terms of foreign currencies by eliminating export duties, and by imposing restrictions on unofficial trading in foreign exchange and foreign banknotes. These measures failed almost completely, partly because the depreciations were too small to be effective and partly because the Chinese public viewed each depreciation and restrictive measure as a further indication of the weakness of the national currency.

Since March, the Central Bank of China has sustained a net loss of about US $320,000,000 worth of foreign exchange and gold, largely to pay for the unfavorable balance of trade. This situation led the Government to institute, on 17 November, a new import licensing system, designed



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to limit imports to capital goods and necessities. This latest measure can have beneficial effects, but only if it is honestly and effectively administered.

Chinese financial officials and private business leaders appear to have been considerably sobered by the realization that the US Government is opposed to further US public or private financial assistance to China as long as the current uncertain political and economic conditions persist.

Any real stabilization of the Chinese economy--a stabilization that necessarily must precede economic recovery--waits upon the settlement of China's political problems. Even though there may be no revival of military operations, economic impoverishment has by now achieved sufficient momentum to prolong the present chaotic conditions for many months.



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## Dangerous Attitudes of Italian Extremists

In Italy the dangers inherent in the current trend from the Center toward the Right and Left have been highlighted by recent utterances of extremist leaders. Gulielmo Giannini, leader of the reactionary Uomo Qualunque movement, has stated that the choice before the Italian people is between Communist anti-clerical totalitarianism or a Christian authoritarian regime. In reply Foreign Minister Nenni, left-wing Socialist leader, has declared that civil war or a relapse into Fascist dictatorship can be avoided only by an early Socialist-Communist "conquest of power."

It is evident that both spokesmen are appealing to that generally Centrist half of the electorate which showed its disillusionment with Christian Democratic leadership by abstaining from voting in the recent communal elections. They do so by attempting to persuade such persons that there is no effective middle course--that the only real choice is between the speaker's program and an unacceptable alternative. The disillusionment in Italy is such that this counsel of despair may have considerable influence in furthering the trend toward the extremes. It is evident that a tendency toward the elimination of the middle ground and division between irreconcilable extremes contains the threat of civil war and eventual dictatorship.

There are, however, indications of resistance to this trend. The leftist strength shown in the recent elections resulted in large part from Socialist-Communist unity of action sponsored by Nenni. Right-wing Socialists are alarmed lest their Party become a mere branch of the Communist Party, and Giuseppe Saragat has challenged the leadership of Nenni on this issue. So long as the contest can be kept within the Party, Nenni will hold the advantage, but, if the Socialists should split, Saragat's defection would be a counter movement from Left toward Center.

It is apparent that Giannini, who already enjoys neo-Fascist and monarchist support, is angling for the blessing of the Church or at least the adherence of the faithful. If the Church were compelled to make a choice between the Communists and the Uomo Qualunque, it would prefer the latter, but it is not yet under such compulsion and it may be presumed that its great influence will be exerted toward a revival of Moderate support for the Christian Democrats.



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The net result of these conflicting influences will be determined by the success or failure of the Italian Government in coping with adverse political and economic conditions during the next several months under Christian Democratic leadership; that is, upon the arrest or continued spread of disillusionment. This result will be registered in the general elections scheduled for April 1947, unless, as now seems unlikely, there is an earlier resort to force by either extreme. It now appears probable that in those elections the Christian Democrats will lose ground without disappearing as a major political factor; that both the Communist-Socialist group and the Uomo Qualunque movement will gain; and that no politican grouping of the Right, Left, or Center will prove strong enough to govern the country by constitutional means alone. In that case coalition government would probably be continued, despite its demonstrated ineffectiveness, but both extremes would consequently be under constant and increasing temptation eventually to seek a solution by force.





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## Czechoslovakia's Economic Orientation

The Communist Government of Czechoslovakia is on the threshold of a two-year economic program to orient the country's economy toward that of the USSR and Eastern Europe. Although the West will undoubtedly lose much of its pre-war influence in Czechoslovakia, the Government will probably be forced to make substantial concessions to Western principles of free trade in order to obtain economic assistance and to procure imports necessary to the success of its two-year plan for industry.

The Communist Government has pledged itself to achieve economic prosperity by state ownership of industry and economic planning without sacrificing Western ideals of individual freedom and democracy. The major powers have a serious interest in this experiment. Aside from the prestige of having a Communist Government succeed, the USSR considers Czechoslovakia strategically important. The Western Powers, on the other hand, hope to keep Czechoslovakia as a bridgehead within the "Iron Curtain," and consider the country as a focal point in the development of an economically interdependent Europe governed by the principles of free trade.

Czechoslovakia, which is primarily interested in retaining its independence, can disregard neither the West nor the East. Politically, the heritage of Western democratic ideals is still nearly as strong as the newer Communist philosophy. Economically, the country's immediate future is dependent on both West and East. Although Communist and Soviet influence seem to have been predominant since the war, recent trends indicate a gradual resurgence of Western influence.

Both internal and external considerations will make it difficult for the Communists to achieve their original plans for the Communization of the nation's economy. Despite majority acceptance of the Communist principles of nationalization and economic planning, the Moderates in recent weeks have successfully prevented the Communists from using the two-year plan as an excuse for increasing the power of the executive branch of the Government at the expense of the legislative. On the economic level, the success of the two-year plan depends, in the first instance, on the willingness or ability of the Soviets to supply raw materials needed by Czechoslovak industry--a doubtful eventuality in view of the USSR's own economic difficulties. Other problems facing the Government include: an extreme labor shortage resulting from the expulsion of the Sudetens and the proposed expulsion of at least 200,000 Hungarians; the complexity of reorganizing its industry as a result of nationalization and the shift of emphasis from con-



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sumer to industrial goods, and the inevitable inefficiency resulting from the control of nationalized industry by Communist officials with no business or industrial training.

The Czechoslovak Government, therefore, realizes the danger of closing the door to the West. UNRRA's contribution of raw materials, industrial equipment, and food were largely responsible for the rapid recovery of Czech industry after the war. There is no immediate prospect that the USSR can replace UNRRA's contributions. Czechoslovakia must therefore meet its own import requirements either by obtaining Western credits or by accumulating foreign exchange through expanded exports to Western markets. The recent suspension of credit negotiations by the US appears to have been effective in modifying the Communists' strong anti-US position, by obtaining Czechoslovak agreement to US principles of free trade and insuring fair compensation to US owners of nationalized properties.





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Outbreaks in Indochina

The heavy fighting which began on 20 November between French and Vietnam forces in Haiphong and Langson is indicative of the present deterioration of Franco-Vietnam relations under the modus vivendi agreement. Hostilities reportedly opened when Vietnam batteries fired upon a French landing craft which was attempting to halt a Chinese junk carrying contraband into Haiphong. Fighting spread rapidly through the city and broke out at the same time in the town of Langson, 70 miles north of Haiphong. Although a truce was reached in Haiphong the next day, hostilities were soon resumed after Vietnam rejection of a French ultimatum to evacuate the Chinese quarter. Langson is reported in French hands but is encircled by Vietnam forces.

The outbreak merely touched off tension between the French and Vietnamese which had been increasing since the signing of the modus vivendi agreement on 15 September and, more rapidly, since the effective date of the agreement, 31 October. Each has frequently accused the other of insincerity and deliberate failure to negotiate the implementation of the agreement. While the release of prisoners, recognition of civil property rights of nationals, and cessation of hostile propaganda are important points to each side, the crucial issue between France and Vietnam is the future status of Cochin China.

The French fear Vietnam control of Cochin China because of the increasingly strong Communist leanings of Dr. Ho's Vietnam Government which they suspect is receiving more and more "outside direction," particularly since the arrival of a Soviet "repatriation mission" in Saigon. The extension of Vietnam authority southward would also facilitate Vietnam penetration and subversion in the fairly quiet areas of Cambodia and Laos. Recent reports indicate that a growing number of Cochin Chinese are losing enthusiasm for union with Vietnam, because they fear both Communist domination and control by the Tonkinese, their competitors in rice cultivation.

Future incidents similar to the Haiphong outbreak may be expected while France and Vietnam seek to improve their respective bargaining positions on Cochin China in preparation for resumption of the Fontainebleau conversations in January 1947. The present impasse in Franco-Vietnam negotiations will continue until the views of the new French Government are clarified.



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The Netherlands-Indonesian Union

The broad measure of independence granted Indonesia in the agreement initialed by Dutch and Indonesian negotiators on 15 November took the Dutch public completely by surprise. The negotiations were carried on in utmost secrecy; only with the publication of the agreement were the Netherlanders informed of the new relationship to be established with their former colonies. The Dutch public, still thinking in terms of a Commonwealth as set forth in the Queen's statement of 7 December 1942, was unprepared for the coequal status of the East Indies in the management of Dutch-Indonesian affairs within the Union.

The Dutch conservative press has launched a bitter attack on the "abandonment" of the Indies. It finds the agreement completely unacceptable. Considerable doubt has also been expressed as to whether the designation of the Queen, rather than the Crown, as "head of the Netherlands-Indonesian Union" really binds the East Indies to the Union or only provides a tie that the East Indies can accept or reject. The agreement supposedly has the support of the Labor Party and also of the Communists, who, however, "regret" the opportunity it gives "capitalists of all Imperialistic Powers" to resume their favored status in the East Indies. Ranking military and naval officials reportedly are opposed to the agreement.

The fate of the agreement is in the hands of the Catholic Peoples' Party, which has announced a united stand in support of the Government's Indonesian policy. Nevertheless, the Party must consider its headstrong right-wing group in Parliament, whose defection could mean defeat of the agreement as well as the fall of the Government, now directed by the more liberal Catholics. The Catholic newspapers either express cautious approval of the agreement or reserve judgment until official elucidation is forthcoming concerning such matters as protection of Dutch interests, specific functions of the "organs" of the Union, and, particularly, the ambiguous position of the Queen in the new Union.

The agreement is expected to be ratified by a simple majority in the present Parliament. However, as an amendment to the Dutch Constitution, it also must receive the two-thirds vote of a new Parliament chosen by special national elections. (A solid Catholic-Labor-Communist bloc can assure passage by the narrow margin of four votes in the Lower Chamber and two votes in the Upper Chamber.) Undoubtedly there will be strong conservative opposition to the agreement in Parliament, but in view of the



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immediate withdrawal of British troops from the East Indies, acceptance of the agreement by the Netherlands Government would seem to be the only alternative to the continuation of a long and bitter conflict.

## Chinese Government Seeks Munitions

During the past few months, representatives of the Chinese Government have made several unsuccessful attempts to purchase ammunition and explosives from the US and UK. Chinese representatives have also attempted to buy small arms and ammunition from a few other countries.

China's efforts to obtain munitions abroad have been rendered more urgent by the US policy of withholding arms, ammunition and other military equipment from the Chinese Government pending clarification of China's political and military situation. The US Government has been following this policy since August in the consideration, on an ad hoc basis, of export licenses for the shipment of munitions to China by private US firms. Late in September, General Marshall ordered the suspension, until further notice, of all military supplies to China under the military assistance programs.

In its quest for US munitions, the Chinese Government has shown a particular interest in rifle ammunition--one Chinese request was for 700 million rounds. Turned down by the US, the Chinese have sought to buy ammunition from firms in the UK, but the British Government, in line with US policy, has refused to grant export permits for munitions shipments to China. The Chinese apparently also sought in vain to obtain arms from the Allied Command in Austria and, reportedly, from Switzerland. It is also reported that a Swedish official has attempted to negotiate the sale of small arms in Shanghai.

At the least, China's efforts to obtain ammunition and other munitions abroad indicate that the Nationalist Army is seriously concerned over the possibility that future operations against the Communist forces will be undermined by a shortage of munitions. These efforts, moreover, lend weight to recent reports that the Nationalists' ammunition shortage may become a critical obstacle within a few months if the scale of military operations again increases.



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## The Political Trend in Uruguay

The Uruguayan elections on 24 November resulted in a victory for Tomas Berreta, presidential candidate of the pro-US (Batllista) faction of the Colorado Party, and the defeat of a constitutional amendment which would have given Uruguay an Executive Council on the Swiss model. (Under Uruguay's unique electoral law, a political party may put forward several candidates for the presidency, and the candidate who receives the largest vote is credited also with the votes cast for his opponents within his own party. Thus Berreta, who apparently polled fewer votes than Luis Alberto de Herrera, the candidate of the anti-US nationalist Party, sometimes called the Blanco or Herrerista Party, nevertheless won the election.)

Berreta's faction of the Colorado Party seeks popular support by offering a moderate left-wing social and economic program, most of which has been enacted into law over the past thirty years. Its chief opposition through that period has come from the Nationalist Party which represents the conservative land-holders, the "Gaucho" rural workers, and the right-wing groups among Montevideo's working class population. Though pro-British, the Nationalists, also anti-US, became the voice of pro-Nazi elements during the war. Since 1943 its policy, apparently designed to embarrass the pro-US Colorado Government, has been strongly pro-Argentine. The strong vote polled by the Nationalist Party is in contrast to the trend elsewhere in Latin America where anti-US themes have proved unpopular in recent elections.

The shift of votes to right and left away from the Colorado Party (the Communists polled twice the number of votes they attracted four years ago) was an apparent departure from the trend discernible in other recent Latin American elections (see Weekly Summary of 1 November) and seems to have resulted from local causes of an economic and largely non-ideological character. Many Uruguayans in fundamental agreement with the underlying principles of the Colorado program are nevertheless convinced that the Batllista-dominated Government of recent years has mismanaged the nation's affairs. They blame the Colorado leaders both for Uruguay's acute inflation and for the long series of disturbing cabinet crises that has made Uruguay's governmental system one of the least effective in South America.

A new Congress will be convened when President-elect Berreta takes office. It appears probable that Berreta, like the outgoing president,



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Amezaga, will almost certainly not be able to form a stable cabinet unless he seeks Ministers outside the Batllista faction. The other Colorado factions will consequently be able to block any Berreta-sponsored legislative proposals they dislike and thus perpetuate the political impasse of recent years. Moreover, the increasing popular strength of both Nationalists and Communists suggests the possibility of a wholly new party alignment before the 1950 elections.



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# SPECIAL ARTICLES

1. Strength and Disposition of Soviet Occupation Forces in Europe

2. Soviet Policy in Austria



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# STRENGTH AND DISPOSITION OF SOVIET OCCUPATION FORCES IN EUROPE

During the past six months the total number of Soviet occupation troops in Europe has decreased from about two million to one and a half million. Most of this reduction has taken place in Hungary (from 300,000 to 55,000), Rumania (from 400,000 to 240,000) and Austria (from 150,000 to 65,000); Soviet forces in Germany have been reduced only from 700,000 to 650,000. Troops in Bulgaria, sharply reduced during the summer, have since been increased to between 120,000 and 140,000 as compared with 150,000 last May. Until very recently, strength in Poland has remained at 350,000, but evidence received during the past few weeks suggests that this estimate should be revised to 200,000.

There are indications that between now and the end of the year the USSR will reduce its occupation forces still further. Stalin, in his 28 October interview with the United Press, predicted that by the end of December only 40 Soviet divisions would remain in occupied European countries. On 12 November the political adviser to the Soviet member of the ACC for Germany told a US representative that his Government was reducing its forces in Germany by 50 per cent. While there is no specific confirmation of such a reduction, the fourth phase of Soviet demobilization is believed to be now in progress and is expected to result in reduction of total Soviet military strength from about 4,500,000 to 3,750,000. If the rate of demobilization among occupation troops is the same as that for the Soviet Army as a whole, occupation forces should thus be reduced about 300,000. In view of the substantial reduction which already has taken place in Hungary, Rumania, Austria and probably in Poland, it is improbable that forces in these areas will be further reduced for the present. A cut in the forces now in Bulgaria is considered unlikely, partly because of the favorable wintering conditions there and partly because of the present tension in nearby Greece. It is therefore logical to suppose that the greater part of any future reduction will take place in Germany. The number of occupation troops there seems excessive even by Soviet standards, while in most other areas the strength of occupation forces seems in general conformity with the Kremlin's apparently exaggerated concept of security requirements.

Mere numerical strength, however, is hardly an accurate standard by which to judge the military significance of recent developments. An ambitious program of modernization has been under way for some time in the Soviet Army and will vastly increase the mobility and effectiveness of



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those units which remain under arms. Soviet forces have, furthermore, been engaged in extensive maneuvers throughout the autumn and are now probably at their highest level of combat efficiency since the beginning of demobilization. These measures will go far toward counteracting any weakness which might otherwise result from reductions in personnel.



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## SOVIET POLICY IN AUSTRIA

A new approach in the Soviet war of nerves against the Figl Government was recently disclosed in an article appearing in a pro-Soviet Viennese newspaper. According to this article, an "ex-American diplomat" in Paris stated that, pursuant to a secret US-USSR agreement defining spheres of influence, the US would generally "cease to interest itself in Europe and give up its present policy in Eastern Europe." The anxiety which this article produced, even in high Government circles, reveals not only the extent to which the present coalition regime is directly dependent on the assurance of continued US support, but also the present state of mind in Austria.

Soviet policy is aimed primarily at overthrowing the liberal pro-US Figl Government. To this end, the Soviets desire to prolong the Austrian occupation which in turn serves to justify the continued presence of "line of communication" forces in Hungary and the Balkans. This strategy is characterized by moves to effect the partition of Austria so as to isolate the Soviet Zone, presently occupied by an estimated 65,000 troops. Meanwhile, the pro-Soviet press has attempted to conceal these moves by accusing the US of jeopardizing Austrian unity. The Figl Government is charged with being a conspirator in this "reactionary" Capitalist plot to "partition" Austria.

The economic isolation of Lower Austria and the Burgenland has been accomplished by a variety of means, notably by the seizure of economic assets under the Soviet interpretation of the Potsdam agreement. The USSR has thus assumed direct control over some of the most important agricultural and industrial assets in its zone, including the Zistersdorf oil fields and the First Danube Steamship Company (DDSG). General Clark has informally estimated that the Soviets have gained a foothold in 50% of the entire Austrian economy. Meanwhile, the Soviets continue to insist that the question of German assets is one for bilateral negotiation between the USSR and the Austrian Government. In addition, the Soviets have banned the export of indigenous food from their zone to other parts of Austria in the absence of compensatory imports. General Clark anticipates that the effect of this ruling will be to require direct barter negotiations between the Soviet and other zone commanders without reference to the Austrian Government. A still more restrictive measure, issued on 4 November but recently relaxed, directed that potatoes raised in the Soviet Zone and moved to Vienna be distributed only in the Soviet-occupied



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districts of Vienna. These measures clearly indicate that the Soviets are using food as a political weapon--a practice they often attribute to the US.

The USSR, by refusing to implement legislation it considers contrary to its interests, violates that section of the 28 June control agreement which allows non-constitutional Austrian legislation to become effective in the absence of unanimous AC rejection. This attitude has resulted in a further decline of the Austrian Government's authority.

Nowhere in Europe have the Soviets suffered such a sharp initial failure in their efforts to penetrate or destroy the solidarity of the anti-Communist parties. While this failure is primarily due to US and British support of the two major moderate parties, the People's Party and the Socialist Party, it is also due to (1) the steadfast position maintained by majority party leaders, (2) the strong hold of the Socialist leadership over the industrial workers, and (3) the antipathy of the Viennese toward the Soviet Army. While the small Communist minority in Parliament continues to abuse the Government, it is evident that the Soviets do not hope to break the major party coalition so long as US support continues.

The main immediate effort of the Soviets, therefore, is necessarily to discredit and embarrass the Government and to weaken and disrupt the national economy. Meanwhile, the USSR doubtless seeks to foster any pro-Soviet groups within the country which can be expected to exert a long-term effect on Austrian politics. The most notable example is the Soviet effort to control the provincial police of Lower Austria, as well as the Gestapo-like State Police in Vienna.

It seems clear that without the assurance of continued US backing, the Austrian Government, despite its present popular support, would eventually succumb to Soviet pressure.



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# WEEKLY SUMMARY

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## Special Article

Minor Parties and the Chinese National Assembly . . . . . i

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## Soviet Propaganda in Eastern Europe

Soviet propaganda has failed to maintain the good will with which a majority of the population of Eastern Europe welcomed "liberation" by the Red Army.

Soviet propaganda agencies operating in the satellite states are well-disciplined as to organization and control, and, most important, have unlimited access to media controlled by the local Communist Governments. Local propaganda output is ostensibly of indigenous origin, but is fed by Tass press releases, direct broadcasts from Moscow, and imported Soviet literature. Societies for Cultural Relations with Foreign Countries (VOKS), staffed by local Communists, are set up in each country to handle the "cultural" campaign, teaching the Russian language, disseminating Soviet literature, sponsoring lectures and concerts by visiting Soviet personalities, and sending members of the Party on indoctrination trips to the USSR.

Although Soviet motion pictures and books are not popular with the majority of Eastern Europeans, who compare them unfavorably with those from the US and UK, they are far more plentiful than the latter, and are often forced on the people under compulsory attendance and purchase systems. Many groups resent Soviet propaganda which stresses over-all Soviet superiority and seeks to impose the Kremlin's ideology. Moreover, the Soviets' propaganda problem in Eastern Europe is more complex than within the USSR, where outside competition has been eliminated and intellectual standards are comparatively low. Slavic language similarities are offset throughout Eastern Europe by the centuries-old influence of Western culture. The Communist propaganda attacks against local capitalist "oppression" have little appeal to workers who are ruled by Soviet occupation forces. Contrast between word and action is often disillusioning.

Force rather than propaganda has held in line the Eastern Europeans, who, confronted by the realities of military occupation, political terrorism, and economic exploitation, are not deceived by Soviet promises that Communism will produce a "free" and "democratic" state. Should Soviet force be withdrawn, widespread defections would undoubtedly occur among nominal supporters of Communism, even in such countries as Albania and Yugoslavia.



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## USSR Seeks Expanded Retail Trade Through Cooperatives

On 11 November the Soviet Council of Ministers issued a decree designed to increase the production and distribution of consumer goods through cooperatives. Soviet cooperatives are ordered to produce goods themselves and are authorized to purchase products directly from collective farms. Their 1947 goal is set at 50% above that for 1946, and the program for their expansion will be facilitated by government subsidies and tax concessions. An administration for consumer and producer cooperatives has been set up under the Council of Ministers, and both Government and Party organs have been enjoined "radically to change their attitude toward the trade and production of consumer goods."

Prior to the war, cooperatives played an important part in the distribution of consumer goods throughout the USSR. During the war, however, their functions were substantially impaired by shortages which necessitated strict rationing, and by measures which brought practically all foodstuffs and consumer goods directly under government control. While shortages still exist, there is reason to believe that official measures to meet them have encountered stiffening popular opposition. Until the present, the Kremlin appears to have sought to meet this resistance by severe disciplinary measures. Having apparently concluded that this campaign of coercion is near the point of diminishing returns, Moscow now seems ready to make certain very limited concessions to those "evil" instincts of private or semi-private enterprise which recently have been attacked by official orators.

Under the new program, cooperatives will be free to operate in urban areas, which had previously been under the almost exclusive monopoly of the Ministry of Trade. They presumably will be in a position to attract and guide into productive endeavor resources and manpower which the government has thus far been unable to control. By assuming a substantial share of responsibility for the Nation's consumer needs, the cooperatives will help to relieve the official bureaucracy of one of its most embarrassing problems.

Probably the most significant aspect of the plan is the authorization it gives the cooperatives to buy produce directly from collective farms at prices which will be governed largely by supply and demand. Such an outlet for the farms should stimulate their productive effort, check the tendency in rural areas toward hoarding and black market speculation and expedite the flow of farm products to the bare tables of city dwellers.



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While the new plan is a substantial departure from recent trends, it is hardly a major innovation or reversal of policy. It seems more logical to view it as a temporary expedient designed to meet the shortage of food which is probably the most serious domestic problem of the USSR.

Communist Move To Control Trieste

In a carefully planned maneuver probably instigated by Moscow, the Communist leaders of Yugoslavia and Italy have made a strong bid for domination of Trieste and the surrounding area. For the first time since the end of the war, Communist solidarity has overcome nationalist barriers between the Communists of the two countries.

By dealing directly with Togliatti, instead of through official channels, Tito has strengthened the hand of the Italian Communist leader. Togliatti's announcement that he obtained Tito's offer of an Italian Trieste was influential in the recent municipal elections, where the leftist parties won in five of the six largest cities. Foreign Minister Nenni, leader of the Socialist party which recently made a "unity of action" pact with the Communists, has taken issue with Premier de Gasperi's firm anti-Communist position. Though the Italian Government at first rejected the Tito-Togliatti offer, it has been compelled by strong Communist-Socialist pressure to express its official desire for direct negotiations with Yugoslavia.

While Tito has strengthened the Italian Communists, he has made no concession by offering Trieste, which is not his to offer. On the contrary, Gorizia would give him the gateway to the Venetian plain and a control point from which all of Istria, including Trieste, could be cut off. Violent anti-Tito demonstrations have already taken place in Gorizia, where there are three times as many Italians as Slavs.

Molotov has played his cards slowly and carefully in the Council of Foreign Ministers. He has made concessions as to the power of the Governor of Trieste and the allegiance of the city security force, but he has continued to insist that US and UK forces leave Venezia Giulia within four months of the Trieste settlement. This is the key issue. The US and UK are equally determined not to leave the Free Territory until its international status can be effectively guaranteed. Molotov's position is that an impasse exists, and, backed by France, he now recommends that Italy



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and Yugoslavia attempt a direct agreement. Tito and Togliatti are now expected to press for such an agreement between their respective Governments which will eliminate international control and open the way for ultimate Communist domination of the Trieste area where they already control the labor unions.

## Swiss Commercial Aid to the USSR

Available evidence suggests that Swiss interests are acting as intermediaries for the USSR in the purchase of consumer goods and war materials from Western Europe. These purchases are shipped from Switzerland to Soviet satellite countries and thence to the USSR. The Spanish Foreign Minister, for example, recently disclosed that Franco had refused to sell wolfram to certain Swiss firms for shipment to Poland. Franco was aware of the ultimate destination of this material and was unwilling to contribute to the Soviet war potential. The Swiss Government already has entered into a trade treaty providing for substantial direct commercial relations between Switzerland and the USSR; it may also be acting as cover for the USSR in the indirect accumulation of strategic war materials.



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## The Importance of Bevin to Britain

Although Prime Minister Attlee's integrity and abilities command great respect in Britain, there is no doubt that Foreign Minister Bevin is the strong man of the Labor Government. His leadership is unmistakable, he inspires personal loyalty and general confidence, and his firm policies have obtained broad non-partisan support except from his own Party's left wing and the Communists, whose influence is ineffective.

Bevin was Britain's outstanding trade union leader between the wars, and Minister of Labor and National Service in Churchill's coalition Cabinet. He expressed a preference for the Exchequer when he was appointed Foreign Secretary. Despite his arduous official duties, he still takes an active interest in many aspects of domestic policy; in such matters, he wields virtual veto power. Bevin's vigorous appearance, at 65, is somewhat misleading. He is not robust. Overwork, complicated by heart disease, caused his health to break down in July. After a short rest he seems to have recovered; however, the possibility exists that he may be forced to retire before the international situation stabilizes.

The loss of Bevin, its ablest Minister, would be a major blow to the Government, the country, and the Labor Party. There is no Laborite of comparable stature to take his place at the Foreign Office. The most conspicuous candidate is Hugh Dalton, the able professional economist and Chancellor of the Exchequer, but doubt exists whether Dalton possesses sufficient toughness and political courage; within Party circles he is regarded as scheming and self-seeking. Herbert Morrison, the leader of the House of Commons and coordinator of domestic policies, would replace Bevin as the strongest man in the Government, but he is not a trade unionist. Deprived of Bevin's influence on the workers, British foreign policy would lose popular confidence, and therefore would have to undergo change. Within the Labor Party the intellectual doctrinaire Socialist influence would increase. Conversely, the relatively conservative trade union influence, which is now dominant, would be weakened.



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Future of the Albanian Government

The withdrawal of the US Mission may lead the USSR to abandon its support for an independent Albania in favor of that country's inclusion in a Yugoslav or Balkan federation. The Soviets may now consider that US and UK recognition of the Hoxha regime is unlikely and consequently that there is no longer any possibility of adding Albania to the Eastern European bloc in the UN.

As an independent country Albania's chief asset to the USSR would be its eligibility for membership in the UN. If Albania cannot be placed in the UN, the Soviets for security reasons may prefer to have this strategically situated small state either under Tito's control or within a larger Slav Federation including Yugoslavia, Bulgaria and possibly Macedonia.

Such a step, however, might encounter resistance because of Hoxha's possible desire to remain the head of an independent state and because of the preponderance of non-Slav elements in Albania. In order to preserve his present position, Hoxha might therefore offer to meet US and UK conditions in a belated bid for recognition.





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# SPECIAL ARTICLE

## 1. Minor Parties and the Chinese National Assembly



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# MINOR PARTIES AND THE CHINESE NATIONAL ASSEMBLY

The convening of the National Assembly, over the opposition of the Chinese Communists and the minor parties, constitutes a turning-point in Chinese politics. It ends a chapter in the overt negotiations between the National Government and the Communist Party for a compromise settlement in which US representatives and the minor parties had a mediating role. It intensifies conflicts between contending factions and philosophies in the Kuomintang Party. It has put a great strain on the federation of minor parties in its efforts to influence Chinese political developments.

The minor parties, which formed a federation during 1941, later known as the China Democratic League, achieved their maximum influence shortly after V-J Day in the establishment of the Political Consultative Council. Early this year the Council reached a unanimous agreement forecasting a peaceful settlement between the Government and the Communists. The influence of the minor parties declined when it became evident that the agreement had been engineered by Kuomintang moderates who did not in fact hold power, and that neither Kuomintang extremists nor the Communists could be compelled to abide by it. The minor parties could no longer mediate between the Communists and the Government, because the ultra-conservative wing of the KMT had seized control and because they had no military power. Furthermore, the federation was put under severe strain as its constituent parties were pulled in the direction either of the Communists or the KMT. Its power as a bloc began to disintegrate.

By calling the National Assembly the Government forced the minor parties to decide whether to attend, and lend prestige to the Kuomintang-dominated Assembly, or to abstain, thereby losing an opportunity to exert some influence directly upon the drafting of the constitution.

The conservative Young China Party, which had earlier detached itself from the League, has appointed its delegates but has so far not participated. The Social Democratic Party is presently bargaining its forty seats for promises of governmental reform and reorganization, civil liberties, and the continued search for a peaceful settlement of the Communist problem; it appears likely to join. Whether the other parties will join individually is not yet clear.



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The key problem before the Assembly at present is organizational. The issue is whether the extreme conservative wing of the Kuomintang will achieve decisive control of the Assembly by means of the Steering Committee. Because this wing controls the Kuomintang mechanism, and a majority of delegates are KMT members, the conservatives stand a good chance to obtain the control they desire in spite of furious opposition.

A second major problem concerned which of two draft constitutions should be submitted to the Assembly for consideration. The "Double Five" draft completed 5 May 1936 is utterly unacceptable to all organized groups except its sponsors, the conservative wing of the Kuomintang. The "PCC Draft" produced by the constitutional sub-committee of the Political Consultative Council embodies the principles agreed upon last January; it is generally acceptable to the moderates in the Kuomintang, the minor parties, and the Communists. This issue apparently was resolved on 21 November when the Government with KMT concurrence, announced that a revised "PCC Draft" would be submitted to the Legislative Yuan, which would probably submit it to the National Assembly on 25 November. This concession by the ultra-conservatives improves the prospects for a more representative Assembly.

In this situation there is still an opportunity for a general political settlement between the Government and the Communists -- a settlement for which there is great public pressure, particularly in view of the economic deterioration throughout China. If, after a suitable cooling-off period, peace negotiations should be undertaken once more, the National Assembly might become an instrument for confirming such a settlement.



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## Zhdanov's Revolution Day Speech

In addition to being the major Soviet national holiday, 7 November is the traditional day for the celebration of past achievements and for dedication to future tasks. The mass of humanity which shuffles through Red Square supposedly receives ideological inspiration from the display of military might and from a glimpse of the sacred beings who inhabit the Kremlin. Usually this spiritual diet is supplemented by some tangible evidence of the benevolence of Soviet rulers, such as an announcement of a ration increase, a rise in wages, or more plentiful consumer goods.

If the audience which listened to A.A. Zhdanov last week expected inspiration or encouragement, however, it must have been sadly disappointed. None of the prominent or popular national figures of former days was in evidence. Zhdanov himself, the only full member of the Politburo present, is best known for his role as "hatchet man" for ideological and industrial purges, and this reputation proved wholly consistent with the tone of his address. His speech was received with a noticeable lack of enthusiasm, the audience apparently well aware of the real significance of the dark picture he painted.

The defensive character of Zhdanov's discussion of domestic problems confirms many previous indications of economic confusion and popular demoralization. Zhdanov admitted that "serious sacrifices" were necessary to restore the national economy, and, by implication, confessed to the low productivity of labor, the apathetic attitude toward the new five-year plan and the depleted condition of state-controlled stocks of food. His words left no doubt that the recent price increases of rationed goods were intended to drain off surplus rubles so that consumers could not create a run on food supplies if and when ration restrictions are removed. The only word of cheer for the worried Soviet citizen was the assurance that, however heavily his own problem might weigh upon him, workers in capitalist countries faced an even more dreary future.

Aside from urging increased production of consumer goods, the only remedy offered by Zhdanov for the many difficulties he described or implied was an exhortation to adhere more firmly to the "Bolshevist line."





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In a brief discussion of foreign affairs, Zhdanov laid stress upon the USSR's "valiant efforts" to promote a truly "democratic" peace and quoted Stalin's statement to the effect that the people of the world do not want war. He reiterated Soviet opposition to the internationalization of the Danube and complained of the efforts of the Western Powers to "enslave small countries." He was particularly critical of what he described as "the unjust principle of equal opportunity" in connection with international economic relations.

The US Charge in Moscow has aptly characterized the address by noting that the portion devoted to domestic problems laid down a line of "let them eat slogans," while passages dealing with foreign affairs constituted a blend of "olive branches and brickbats."

Revival of Militant Communism in USSR

The Soviet domestic propaganda machine continues its ideological war against the outside world in spite of conciliatory statements by Stalin and Molotov. The most recent phase indicates a revival of evangelical Marxism tending to accentuate the ideological differences between East and West.

This propaganda program is being implemented by a series of intensive and well-integrated "refresher" courses to be attended by groups equivalent in US terms to all elected and appointed officials of the federal, state and local governments in the United States as well as executives of large corporations. Attendance of these officials is being required in spite of the fact that absence from their normal duties will have an adverse effect upon the productivity of Soviet agriculture and industry.

These courses revive the concept of the Soviet Union as the leader in the elevation of world society to the higher planes of Socialism and Communism. In this task, the USSR is said to be standing alone among "hostile" states which are pledged to the destruction of the Socialist Fatherland. The danger of "capitalist encirclement" is used to explain the continued existence in the USSR of a strong central government and powerful army, to justify the absence of basic comforts, and to spur Soviet citizens to greater efforts. At the same time the promise of a





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bright and abundant future is held out as a reward for current sacrifices.

Many other methods are being used to indoctrinate the masses. Soviet economists were recently instructed to produce works emphasizing the superiority of the Soviet over the Capitalist system. Similarly, a recent authoritative article impressed upon educators the necessity of guarding against the "opportunist theory" of class reconciliation (i.e., the possibility of a peaceful settlement of the "class struggle"). Zhdanov, in his recent speech, emphasized the importance of the political education of Soviet youth and declared that such education must be organized in the "spirit of Bolshevik ideology." These tactics, along with the continuation of the "intellectual purge," reflect the determination of the Kremlin to reassert Marxist dogma as a means of re-establishing Communist discipline. They hardly point to any desire to reach an accommodation with the West that would involve the elimination of the barriers to a free exchange of ideas or to social and business intercourse.

## Possible Strains on Anglo-American Collaboration

A number of straws in the wind suggest the possibility of a change in UK policy which may vitally affect US and UK collaboration. Leftist elements in the Labor Party are exhibiting increasingly vigorous discontent with British foreign policy and with the UK's role as a Socialist state. A movement appears to be underway to force the UK to adopt an independent foreign policy as the leader of European Socialism. This would entail British abandonment of close collaboration with the US in both the political and economic fields, and the assumption by the UK of the leadership in a middle-of-the-road policy between Soviet Communism on the one hand and US Capitalism on the other. The recent Republican victory in the US, which in one sense is interpreted as a victory of individual enterprise over state control, is providing ammunition for those elements in the UK which favor such a policy.

This move to reorient British policy appears at the present time to have support primarily in the left wing of the Labor Party, and Communist backing. It came out into the open in a meeting of the Parliamentary Labor Party on 13 November when a minority group is reported to have





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signed an amendment to King George's speech urging that "the Government so recast its conduct of international affairs as to afford the utmost encouragement and collaboration with all nations and groups striving to secure full Socialist planning and control of the world's resources." The group hoped that in this way the Government "could provide a democratic and constructive Socialist alternative to an otherwise inevitable conflict between American Capitalism and Soviet Communism." This development climaxes a series of left-wing attacks in Parliament upon UK policy towards the USSR, Greece, Spain and the US, as well as continuous efforts by the Communists (who are excluded from membership in the Labor Party) to secure the adoption by the Trade Union Council of resolutions attacking the Government's foreign policy.

This minority group amendment takes on particular significance, when it is viewed in the light of two previous developments. In January the British Labor Party considered taking the initiative in reconstituting the Socialist International but temporarily abandoned the plan because the Communist-dominated Socialist Parties in Eastern Europe dared not participate. However, an informal meeting of representative European Socialists was held in England during May and a second meeting, to which a German Socialist leader was invited, has just taken place in England. The groundwork has therefore been laid for a possible revival of the Socialist International as an instrument of British Labor Party leadership in Europe. In the second place, British Labor elements have recently forced the Government to adopt a policy of encouraging the socialization of industry in the British Zone in Germany and have expressed disapproval of what they regard as the capitalistic approach in the American Zone.

A number of economic factors also appear to be playing into the hands of those who advocate an independent Socialist foreign policy. Various sections of the British press have for some time shown grave concern over the possibilities of an inflationary boom and subsequent depression in the US and have questioned the advisability of tying British economy too closely to that of the US. These general apprehensions have been strengthened by the results of the recent US elections. Some observers in the UK fear that the Republican victory may foreshadow a change in US international economic policy. They anticipate a lessening in the effectiveness of Government control in international economic relations, as well as the virtual elimination of control over the domestic





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economy. They are, therefore, seriously disturbed over the effect of rising US prices upon both world and UK economy and upon the problem of making American surplus foodstuffs available for relieving starvation in Europe. They are inclined, moreover, to question the practicability of the currently established US international economic program.

Should these political and economic influences which now appear to be gaining momentum in the UK force the British Government to re-orient its foreign policy, the close collaboration between the US and the UK would be jeopardized. The USSR, through more or less fortuitous circumstances, would have secured a long-desired cleavage in Anglo-American solidarity. Moreover, serious obstacles to the implementation of the US international economic program would arise.

French and Italian Elections

The recent National Assembly elections in France and the communal elections in a number of the larger Italian cities show important common trends. In both instances there was a decided shift from the center to both the extreme Left and extreme Right, attributable to similar general factors.

In both countries there has been an increase in popular dissatisfaction with the performance, in handling foreign and domestic problems, of a coalition government under the leadership of the Center. The Center parties have therefore borne the brunt of public disapproval. Concurrent popular apathy towards elections has led to abnormally large abstentions which have played into the hands of the well-organized extremist groups. The Center parties have likewise suffered because of violent internal propaganda campaigns, reflecting the cleavage between the East and West at international conferences, which have sharpened the issues of Communism and/or democracy versus reaction.

The French elections have resulted in a deterioration in the prospects of forming a stable government capable of solving France's serious economic problems and of playing a strong role in international affairs. The relative position of the Communist and MRP parties has been reversed since the elections of last June. The Communist Party, with 28 per cent of the votes cast, leads the MRP by 2 per cent while the





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rightist PRL, although in fourth place, showed the largest gains. The third-place Socialists were the heaviest losers.

The principal effect of de Gaulle's intervention was further to split the non-Communist vote and to strengthen the Communists. However, the Communists are still far short of a clear majority and cannot, even in conjunction with the Socialists, form a leftist government. In consequence, the organization of a new French government will be beset with serious difficulties. The MRP and Rightists have sufficient representation, on a numerical basis, to form a government but their differences appear too deep to permit reconciliation. The most probable compromise appears to be a continuation of the Communist-MRP-Socialist coalition, but under Socialist leadership and with the possible inclusion of the Radical Socialists. Such a government will probably prove even more ineffective than its predecessor in view of the increased strength of the Communists and the bitter pre-election pronouncements of both Communists and MRP's that each would exclude the other from participation in a new government.

In the recent Italian city elections the moderate Vatican-supported Christian Democrats clearly lost the primacy won in the June general elections. The leftists emerged victorious in five of the six major cities including the key city of Rome. The extreme rightist "L'Uomo Qualunque" ran second to the leftists in Rome and Naples and was first in Palermo. In five of the six major cities the Christian Democrats ran a poor third.

The leftist showing in Italy was enhanced by three local factors. The Italian worker has been impressed by the successful Communist campaign for increased wages. Moreover, the recent Communist-Socialist "unity of action" pact gave the leftist bloc a decided advantage. Lastly, Communist leader Togliatti's pre-election announcement of Tito's "offer" of Italian sovereignty for Trieste in exchange for Gorizia undoubtedly influenced the outcome in favor of the Left.

Despite their gains in these municipal elections neither the leftist bloc nor the Rightists appear able to gain a majority in any general election. In the general elections scheduled for next spring, according to most recent indications, the leftist coalition would probably receive a majority of votes in industrial and populous northern and central Italy.



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On the other hand, rightist parties dominate southern Italy and Sicily. In order to counterbalance growing leftist strength, the weakened Christian Democrats may be forced into a coalition with the Right.

At present the Italian Cabinet faces a possible crisis and Premier de Gasperi may be compelled to resign, because of apparent popular rejection of his Party.



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## Economic Difficulties in Rumania

The USSR and the Groza Government have, probably intentionally, forced Rumania to the brink of an economic crisis which will seriously retard the country's long-range economic recovery, will produce famine this winter, and may result in Communization of the nation's industry. Rumania's economy, already impaired by the cost of maintaining Soviet occupation troops and of meeting Soviet reparations demands, has been ravaged by this summer's severe drought and the resultant food shortages.

In addition to causing an immediate shortage of food (it is estimated that Rumania must import 1,000,000 metric tons of corn and 400,000 metric tons of grain seeds in order to avert famine this winter), the drought has upset the country's agricultural balance by causing the premature slaughter of livestock, including milk and work animals for which no feed is available. Faced with the necessity of importing food, Rumania must now abandon any slim hope it might have had of importing the capital equipment and raw materials needed for its industry, the bulk of which cannot finance such imports as long as it is producing at a loss to pay Soviet reparations. The shortage of consumer goods has already produced inflation, with skyrocketing prices and wages, devaluation of the currency, and a thriving black market.

The failure of the Soviets to take active steps to prevent economic collapse in Rumania as well as the superficial and ineffective measures taken by the Groza Government to improve the situation indicate that the Communists hope to profit by the expected collapse of private enterprise. Deterioration of agricultural economy could be used to justify stronger Communist control and would facilitate the imposition of collectivized farming. Even mass demonstrations or uprisings over the impending food shortage could give the Communists an excuse for more drastic suppression of the Opposition. The collapse of industry would similarly open the way for nationalization under Communist control.

The insistence of the USSR on excessive reparations payments, including food both for export to the USSR and for use by Soviet occupation troops, has played a major part in the deterioration of Rumania's economy. The USSR, besides its purely selfish motive of gaining the maximum immediate benefit for itself, has probably also been anxious to prevent Rumanian economy from being oriented toward the West and to expropriate Anglo-American investments, particularly in the oil industry.





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Suspension of reparations for one year by the Soviets would enable the Rumanian Government to realize an estimated $100,000,000 from exports for the purchase of needed food and other imports. Although the Soviets have temporarily suspended all demands for food except for the requirements of their occupation troops, further concessions are unlikely in view of their previous efforts to dominate Rumanian economy.

Unsteady Balance in Spain

The foundation of Franco's power appears to have weakened in the past month, but his elimination is not yet in sight because forces working for his removal are in part neutralized by others.

Probably the most important factor working in his favor is the disinclination of the Army and the conservative classes to risk a revolutionary upheaval. As the food situation becomes more critical, these groups are increasingly hesitant to disturb the status quo. Their reluctance to relax controls over the people has been further increased by the electoral victory of the Communists in France. During the past year the Spanish public itself has shown a revulsion against terrorism, hostility toward the USSR, and a decided tendency to rally to the Franco regime when it was under attack from abroad. Recent bomb outrages in Madrid have coincided with another Soviet-sponsored drive to make the UN an instrument for overthrowing Franco, who is meanwhile intensifying his own precautions by hundreds of political arrests.

The factors weakening Franco are: (1) Spain's critical economic situation; (2) the recent agreement of leftist and rightist opposition groups; and (3) continued international hostility. The most serious threat is food scarcity, which has led to popular bitterness, wider belief in official corruption, strikes, violence, and (perhaps most significantly) to some Army criticism of the regime's failure to improve conditions. Benefits from the new Argentine trade agreement are unlikely to remove this threat within the near future. The recent rapprochement arranged abroad between Monarchists and non-Communist leftist elements may have far-reaching consequences. If these elements are supported by their nominal followers in Spain, their agreement will go far to deprive Franco of a principal political asset, because the emergence of a strong Center group would no longer be an impossibility. Internationally, the continuance of general hostility will hamper Spain in finding badly-needed economic assistance even if the UN takes no new measures against Franco.



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**The inter-action of all the above forces suggests that Franco, despite economic difficulties, foreign unfriendliness, and the maneuvering of domestic enemies, will still cling to power even though his grasp on Spain may have less solidity.**



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# SPECIAL ARTICLES

1. The Review of the Japanese Constitution
2. Foreign Influence in Latin American Military Circles



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## THE REVIEW OF THE JAPANESE CONSTITUTION

The current conflict between the Far Eastern Commission and SCAP over review of the Japanese Constitution shows that constitutional reform is still the basic issue of the occupation in Japan. Although the organic law finally adopted by the Diet conforms substantially to the Commission's policy decisions, the Commission decided on 17 October that the Constitution must be reviewed by the Diet and the Commission within one to two years after the instrument comes into effect.

The US concurred in the decision on the condition that it should not be announced until SCAP had been consulted. Australia proposed that announcement should be made concurrently with the promulgation of the new Constitution. SCAP was informed of the Commission's decision on 28 October and of the US reservation and Australian proposal on 29 October.

When the Commission adopted its review decision on 17 October, it knew that the Constitution would be promulgated at the beginning of November. In accepting the US reservation in favor of consultation with SCAP, the Commission was aware that announcement of the review provision might be considerably delayed. A sense of urgency, which was not present on 17 October, developed shortly thereafter. At the 31 October Commission meeting, the representatives of the USSR, the UK, New Zealand, Canada and France joined Australia in advocating announcement of the review decision simultaneously with the promulgation of the Constitution. This proposal was promptly communicated to SCAP together with an urgent request for his reaction.

On 1 November, without referring specifically to the proposal of 31 October, SCAP expressed in general terms his opposition to review. He also recommended that publication of the review decision be delayed for at least one year and implied that the Commission might alter its policy in the light of additional experience. He expressed the view that announcement is unnecessary, because the Constitution provides for amendment by the Diet and is subject to review by the occupation authority. Publication of the Commission's decision, he added, would be resented by the Japanese as a display of force and a negation of democracy. These comments were received with indignation by most of the Commission members. A subcommittee charged with drafting a reply sub-





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sequently proposed that SCAP be required to publish the review decision before the opening of the next Diet session on 25 November.

In this situation the US faces the alternative of reversing SCAP or imposing its veto in the Commission. The US consented reluctantly to the decision of 17 October, and with the evident intention of postponing further action. The proposal for a future review of the Constitution had been introduced before the Commission last June, when it became clear that the Japanese Diet would probably adopt the Shidehara draft. Australian and New Zealand delegates initiated and strongly supported the review proposal probably because they felt that SCAP had circumvented the Commission and diminished its authority by publicly approving the draft at the time of its publication on 7 March. These delegates were also the sharpest critics of the Shidehara draft and frequently argued that a decision in favor of review was a necessary condition for their approval of the Constitution.

The other members of the Commission, who have generally followed the leadership of Australia and New Zealand on constitutional questions, were prepared to adopt a decision for review on 11 July. At that time the USSR for tactical reasons proposed an alternative declaration of policy which would have made the promulgation of the new Constitution contingent on prior approval by the Commission. The threat that reform of Japanese national policy might be blocked by a veto in the Commission was inherent in the Soviet proposal; consequently it was rejected. The USSR in turn refused to accept a compromise decision which would permit the new Constitution to come into effect "pending a decision" by the Far Eastern Commission. In order to avoid a Soviet veto the review proposal was temporarily withdrawn.

Debate on the provisions of the Constitution ended with the decisive rejection of Soviet motions for additional amendments on 19 September. Having suspended all further consideration of the text of the law, the Far Eastern Commission decided unanimously on 17 October to require a future review of the Constitution. The Soviets apparently abandoned their opposition to review when this position ceased to be of value in bargaining for revision of the draft.





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The new Japanese Constitution was promulgated on 3 November with the tacit consent but not the sanction of the Far Eastern Commission. The nations which advocated review as a quid pro quo for their approval of the draft thereby obtained a double advantage in their controversy with SCAP. The Constitution still lacks the Commission's approval and it may be reviewed. A majority of the Commission now favors review and is disposed to insist on an early announcement of the 17 October decision. Further delay, it is argued, will lay the Commission open to charges of negligence and duplicity. The USSR has joined Australia and New Zealand, the most ardent proponents of these views, and other nations are urging publication, apparently in the belief that the authority of the Commission is at stake. Only the US and the Philippines are now opposed to an early publication.

An issue has thus been raised which is likely to embarrass the occupation for a long time. The Japanese people are generally unaware of the part taken by the Commission in the reform of their Constitution. They are proud of having reconstructed their Government on a democratic foundation and they believe that SCAP was speaking for the Allied powers when he approved the Constitution. It will be difficult to disillusion them without provoking a revulsion against democracy which might jeopardize the objectives of the occupation.





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## FOREIGN INFLUENCE IN LATIN AMERICAN MILITARY CIRCLES

Several recent reports from Europe and Latin America suggest that the US-sponsored program for unified defense of the Western Hemisphere is not to go forward unchallenged by extra-continental powers.

This program, symbolized since 1942 by the Inter-American Defense Board, seeks primarily to integrate the armed forces of the 21 American Republics into a continuing plan for joint action against any extra-continental aggressor. To this end, the Defense Board has insisted upon the early standardization of (1) military and naval equipment, (2) organization, and (3) training throughout the Hemisphere. It has, moreover, been clearly understood in Inter-American Defense Board circles that the standardization is to be achieved under US leadership and on the basis of US standards, and that such standardization calls for the use of US-manufactured weapons and the establishment of US training missions in all the other American republics. By implication, at least, the Board's proposals envisage the elimination from the armed forces of the Hemisphere of extra-continental weapons and military missions, together with the influence which they both would give to any extra-continental power.

During World War II the Hemisphere defense program (in connection with which the US supplied most of the Latin American countries with arms and military training missions) was able to make rapid progress because the European powers that had formerly been most active in Latin America were temporarily unable to compete for influence. During 1946, however, France, Belgium, the UK, Italy, Sweden, Spain, and, as a newcomer to the field, the USSR, have given evidence of their determination to recover for Europe some of the ground the US has gained during the past seven years.

An increasing number of reports have described the attempts of various countries to take advantage of delays in the execution of the US program. There have been accounts of British, French, Spanish, and Czech negotiations with Argentina. The Swedes are already furnishing arms to Argentina under a contract concluded during the war. The Czechs and British in Chile, the British and Italians in Venezuela, the French in Peru and Brazil, and the Belgians in Paraguay have either discussed the sale of arms or the adoption of European military techniques. In Chile





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the Soviet commercial representatives are reported to have gone so far as to offer Soviet arms and ammunition to former "black-listed" firms.

The above European countries may be divided into two categories according to their apparent motives for seeking military influence in Latin America. The Belgians and the Swedes fall into the first category; their main interest is almost certainly trade and interference with US influence is incidental. In the second category are the French, British, Italians, and Spanish, all of whom desire to exercise political influence in Latin America, and therefore, in many cases must undermine the US military cooperation program to achieve any substantial success. In the case of the British, global considerations would perhaps restrain them for the present from taking, against the wishes of the US, any steps that would affect situations which the US considers of vital importance. The second category also includes the Soviets, whose chief objective is to interfere with or displace US influence, and the Czechs, who may well assist the USSR in Latin America.

European intentions or desires to gain influence in military circles in Latin America do not in themselves threaten the US-sponsored Hemisphere defense program, and none of the reports received to date indicates that the Latin American Republics would prefer European arms and doctrine to those of the US. However, these intentions emphasize the value that other countries place on that influence. Furthermore, even the small measure of success the European countries have thus far achieved points to a growing impatience on the part of at least some of the Latin American countries to satisfy their own defense requirements.





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# WEEKLY SUMMARY

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## Special Article

Soviet-Dominated Slavic Minority Groups in Latin America . . . . . i

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## Soviet Propaganda Treatment of US Politics

During recent weeks the Soviet propaganda machine has devoted special attention to the US political scene. Kremlin mouthpieces have lamented the fact that "reactionary cliques" of "imperialists" and "militarists" have gained control of US policy and are bending it to serve their own evil purposes. According to the Soviet interpretation, the principles of Roosevelt have thus been betrayed and political figures who sought to carry on his policies have been martyred. It is, according to Moscow, solely because of this reactionary trend that Soviet-American relations have deteriorated. The implication is clearly presented that a return to "progressive" leadership in the US would immediately clear the way for improved international cooperation. Not only has this line been pursued with vigor in the field of domestic propaganda, but it has been emphasized in English-language broadcasts beamed to North America.

While it cannot be said with certainty whether Moscow political strategists actually believed that such a campaign would have the desired effect on US elections, certain Marxist concepts of the nature of politics in the capitalist countries may have convinced them that it would. Communists have always conceived of political power in terms of a small, well-disciplined ruling clique dominating a pliable mass of "workers and peasants." While professing close identity with these "masses," the Marxists instinctively distrust them. Lenin himself warned of the danger of diluting the Party ranks with the politically immature. This theory readily lends itself to conditions within the USSR, and Soviet leaders, because of their ignorance of the outside world, may well consider it equally applicable elsewhere. They may thus conclude that a handful of capitalists do in fact dominate the American scene and that it would be a relatively simple matter to persuade the masses of the advantage of turning against their oppressors, and replacing them with a similarly small clique of "progressive" rulers. Aware of the US desire to achieve more stable international relations and be rid of war fears, and oblivious of the resentment with which the US voter views suggestions from abroad, Moscow may have entertained some hope of success for such a campaign.

While the effects of Soviet propaganda on the US election have been negligible, the propaganda itself has paved the way for a campaign by US leftists to seek to discredit future American foreign policy and claim that





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Soviet-American friction is the result of the increased influence of "imperialists" and "militarists." The outcome of the election also may be used as the basis for a "we told you so" line directed toward the smaller powers, in which it will be argued that the US swing to the right leaves "democratic" elements with only the USSR as a champion.

On the domestic front, the election results fit neatly into the Kremlin's previous propaganda pattern. The Soviet worker presumably will now be told how fortunate he is not to share the fate of his American colleague, and how proud he should be that, of all the great powers, his government alone remains on the side of the "people." At the same time, of course, he will be warned that new US leaders will nurture plans for world domination even more sinister than those of their predecessors.

## Communist Pre-Electoral Tactics in Rumania

The Communist electoral pattern, so successfully delineated in Yugoslavia and Bulgaria, will be repeated with only minor variations on 17 November when the Rumanian people vote in their first post-war election. The Groza Government, although faced with an opposition conservatively estimated at 75 per cent of the electorate, is determined to win an 85 per cent victory. It has accordingly conducted a campaign of violence and terrorism that will make it impossible for the Opposition to register its full strength at the polls. The Rumanian election, therefore, will probably reflect the will of the people even less truthfully than did the elections in Bulgaria and Yugoslavia, where opposition to Communism was neither as well organized nor as determined.

The Government's extreme measures against the Opposition indicate the Communist Party's estimate of what was necessary to insure a vote that would justify complete Communization of the country. Under the guise of the Communist-sponsored and administered electoral law, large numbers of potential Opposition voters have been unable to register, many do not yet know whether they are registered or not and those protesting non-registration must present 16 separate documents, many of which are unobtainable. Communist control of printers' unions, the radio, newsprint



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distribution, and censorship has successfully prevented the Opposition from publicizing its campaign. The Government has attempted to discredit Opposition leaders by accusing them of subversive activity and subjecting their homes to frequent search. Many are in jail without formal charge. Violent physical attacks on Opposition leaders are an almost daily occurrence. Communist strong-arm squads, with the tacit approval of the police, have successfully disrupted the majority of the Opposition's political meetings.

The Communists have further strengthened their position by the now familiar tactics of dividing the Opposition parties and of currying or forcing the support of minority groups. Both historical parties (National Peasants and Liberals) have dissident groups represented in the Groza Government. The Jewish Groups, fearful of the growing anti-Semitism in Rumania, have promised their 200,000 votes to the Government Bloc in return for substantial concessions. The Communists, in their desperate search for support, have even allowed several former fascist Iron Guard leaders to retain prominent Government positions. For the first time in Rumania's history, the Army, now "revitalized," will vote (with obvious results, despite reliable reports that the individual Rumanian soldier has not accepted Communist ideology).

Election day will probably be quiet. Opposition leaders admit their impotence to combat a reign of terror which on that day will be backed by the Army, the secret police, the militia and an estimated 10,000 armed Communist reservists specially called up for the occasion.

## The French General Elections

The 10 November elections for the new French National Assembly will not provide France with a strong cohesive government capable of dealing effectively with the growing economic crisis or of restoring French prestige and leadership in European affairs. Regardless of the possible shift in strength among the leading parties, it will probably be impossible to form a government without Communist participation. A continuation of the tripartite coalition of MRP, Communists and Socialists, and possibly the addition of the Radical Socialists, is therefore in





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prospect. If this should result, the ensuing government will probably be even less effective than its predecessor in framing and executing a constructive program for French rehabilitation, since the antagonisms of the electoral campaign will inevitably result in a deterioration of MRP-Communist relations.

De Gaulle appears to be a confusing rather than decisive factor in the campaign. The results of his appeal for a "No" vote in the recent constitutional referendum clearly indicated that he still exercises a tremendous influence on the French electorate. He is credited with having reduced substantially the favorable majority for the Constitution and with having caused serious defections in the ranks of the MRP. Alarmed by these defections the MRP hastened to meet de Gaulle's views. Its leaders quickly announced their stand for a revision of the Constitution by the forthcoming Assembly and for a government without Communist participation. The Communists and Socialists on the other hand have remained firm against revision, and the Socialists have failed to respond to the appeal for the elimination of the Communists. Yet de Gaulle failed in his 1 November electoral statement to take a definite stand. He merely called upon the electorate to vote for those candidates favoring revision of the Constitution. He did not openly support Bidault's MRP party, denounce tripartite government, or call for an anti-Communist campaign, although he is known to oppose a three-party government and Communist participation.

Whether the MRP or the Communists will emerge as the largest party is extremely difficult to forecast, because of the prospect of abnormally large abstentions, the intricacies of French electoral procedure and the apathy of the French people. Should the Communists emerge with the largest representation, the Socialists probably will be forced to assume leadership in the new Government to be formed in January. The Communists--as in October 1945--would probably prefer to avoid responsibility. In this event Bidault would be seriously handicapped during the next two months in his efforts to conduct French foreign affairs and to deal effectively with the domestic economic crisis.





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## Potential Resistance to Retrocession in Siam

Active native resistance to the French reoccupation of the border provinces retroceded by Siam is expected, despite efforts of the Siamese Government to effect a peaceful transfer. Siamese authorities are dubious of being able to control the strong anti-French groups of Annamites, Free Laos and Free Cambodians in the area. Extremists within these groups are numerous, well-equipped and organized, and capable of considerable and protracted underground activity. While Cambodian extremists may not resist the transfer, the Annamites are less amenable to Siamese control and are likely to offer active opposition to the re-entry of the French.

Apprehensive French administrators in Indo-China have sought to obtain Siamese consent to the continuance of a French liaison mission at Battambang in the hope that the presence of French officers will avert hostile native incidents. The Siamese and the US Minister to Bangkok, on the other hand, feel that the presence of any French nationals in the area at the time of transfer will be an open provocation for hostile acts. The French officers presumably will be withdrawn, and British liaison officers may remain to act as observers.

Siamese authorities feel that the situation can be controlled until announcement of the date of the transfer. The French may blame anti-French incidents upon Siamese instigation; this would augment the existing tension between France and Siam and between French authorities and the native population of Indo-China, and would intensify resentment against European authority throughout Southeast Asia.

## The Gathering Crisis in Colombia

A Communist-led petroleum workers strike against a US company, which threatens to bring motor traffic to a standstill, apparently is precipitating a major political crisis in Colombia. Three urgent political considerations are involved. The Colombian Government shows a tendency to expect a "solution" through US Embassy pressure on the struck company. Colombia's minority-party President, who owes his office to a continuing split in the powerful Liberal Party, is unwilling to take any action that might prejudice his party's chances in next spring's congressional





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elections. The Communists, with at least tacit support from Liberal labor leaders, have to some extent succeeded in translating popular feeling about the strike into a wave of anti-US resentment.

The President, who has informed the US Ambassador that further delay in settling the strike may lead to "disturbances, sabotage, and bloodshed," insists that the struck company (sole distributor of gasoline and other refined products in Colombia) has been "excessively adamant" with respect to the strikers' demand for "pay for time off while striking." The company, in turn, contends that this demand involves a "question of principle" that goes far beyond the pecuniary consideration at stake. There is no reason to believe that either party to the dispute will retreat from the position it has adopted, or that the Colombian Government will exercise its power to declare the strike illegal.

The situation points up sharply the difficulties which US companies employing local labor for operations in South America are increasingly likely to face during the present Leftist phase of the Continent's politics (see Weekly Summary of 1 November). This is all the more true because President Ospina Perez is himself a Conservative businessman who would almost certainly prefer, other things being equal, a settlement in favor of the company. However, by breaking with the less "advanced" members of his own party, by including five Liberals in his cabinet, and by adopting almost in its entirety the Liberals' program of social reform, he has demonstrated his belief that no party can retain power in Colombia that associates itself in the popular mind with a "reactionary" approach to labor problems. The Colombian Communists are therefore free to press extreme demands against any US company with the virtually complete certainty that the Government, obliged to choose between popular disapproval and leaving the company to foot the bill, will choose the latter. All the available evidence--as, for instance, the current strike against Braden Copper in Chile--points to the conclusion that this Communist strategy will prove equally effective in other South American countries.





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# SPECIAL ARTICLE

## 1. Soviet-Dominated Slavic Minority Groups in Latin America



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# SOVIET-DOMINATED SLAVIC MINORITY GROUPS IN LATIN AMERICA

The Communist-dominated movement to organize South American Slavic minority groups into a political force based on Slavic cultural and historical ties is now three years old. It has, however, become increasingly important through the past year because of direct intervention by Soviet diplomatic representatives, for whom it is a means of accomplishing three objectives: (1) strengthening Soviet influence in the "satellite" countries and preventing the formation of anti-Communist Slavic groups abroad, (2) increasing the numerical and political strength of the Communist movement in Latin America, and (3) opening up new and more reliable channels for the flow of intelligence.

The Slavic minorities, which include Russians, Ukrainians, Poles Yugoslavs, Bulgarians, and Czechoslovakians, are concentrated in the southern half of South America. The principal Slavic colonies are in Argentina and Uruguay where a number of Slavs which some investigators have estimated to be as high as 800,000 now reside. Many of them are first-generation immigrants. There are concentrations in Brazil and Chile, and scattered settlements in other South American countries. Because they include a high percentage of skilled and semi-skilled workers, they play an important and often a strategic role in both industry and agriculture wherever they are found.

Under the tutelage of Dr. Tomas Davidov, an able and experienced Communist agent who came originally from Bulgaria, the Pan-Slav movement was launched in 1943 at the Congress of Slavic cultural and political clubs in Montevideo. The movement adopted support of the war effort against Germany as a major propaganda theme, and thus, though clearly Communist-dominated, won for itself, in most of the South American countries, a broad area of freedom in which to conduct activities not even remotely related to the defeat of Nazism. By the end of the war, Soviet officials were ready to participate publicly in its program. Since that time it has openly pursued a threefold course: (1) to register as Soviet citizens all Poles, Ukrainians, and White Russians, (2) to "Russianize" Ukrainian and Byelorussian groups through propaganda emphasizing their essential racial heritage, and (c) to rid the Slavic colonies of all non-Communist members.





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The Slavic groups to a large extent operate independently of the Communist party locals. However, the Slavic Committee in Argentina apparently represents the Argentine Communist Party in certain areas of the interior, and the Slav Committee has a "special commission" which according to credible reports is a section of the Communist Party, charged with responsibility for distributing arms and propaganda. The Slavic organizations in Argentina collect large amounts of money from their members and sympathizers, ostensibly for aid to the USSR. It is believed that a considerable part of this money is placed at the disposal of the local Communist Party.

Direction of the Slavic movement and designation of its members as Soviet agents is believed to be a function of the Soviet Ministry of State Security (MGB), which has among its many tasks that of supervising and controlling Russian emigre groups. If this is true, the Soviet diplomatic officials who direct the movement and the "Latin American" Slavs who lead it are probably MGB agents.

There is definite evidence that the diplomatic services of several of the "satellite" countries are being utilized by the USSR in Latin America to assist in political activities and intelligence work. The Polish diplomatic service reportedly serves as an intermediary for the USSR in the collection of intelligence, and both Polish and Yugoslav trade representatives in various countries have apparently cooperated politically with known Communist agents.





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## Stalin's Replies to the United Press

Stalin's latest calculated efforts to allay popular apprehension regarding Soviet intentions contrasts sharply with the continuing bellicose tone of Soviet propaganda. The Moscow press and radio continue to reiterate Lenin's thesis that war with the capitalist West is inevitable. In general the Soviet diplomatic offensive remains uncompromising and intense.

This seemingly inconsistent approach appears designed to confuse and disrupt the West and to forestall concerted opposition to current Soviet consolidation or future expansion. Stalin's recent interviews suggest that he realizes that recent Soviet policy has caused alarm among democratic peoples and has stimulated public demand for military preparedness and a firm policy toward the USSR. He now presumably seeks to soften public opinion abroad by assurances that the USSR is in fact a "peace-loving" nation.

Stalin's remarks also complement current Soviet domestic propaganda by demonstrating to the Soviet people that Soviet intentions and policy are restrained and non-provocative.

His latest interview coincides closely with the opening of the General Assembly and US Congressional elections. His soothing tone seems designed to conciliate opposition to Soviet demands in the UN and to undermine current US policy towards the USSR by providing ammunition to those elements which are critical of a firm policy.

In the past, Stalin for tactical reasons has seemed to take positions which conflicted with those of his lieutenants. Molotov or some other official often has had the burden of pressing excessive Soviet demands until negotiations touched the breaking-point, and at the last moment Stalin has come forward to ease the strain. A popular impression is thus created that overzealous Soviet subordinates, rather than Stalin himself, are responsible for Soviet intransigeance. By fostering such a myth, the Kremlin can adroitly keep alive Western hopes for improved relations while vigorously pressing Soviet demands at official gatherings.





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## Post-election Prospects in Bulgaria

The 27 October elections for the Constituent Assembly have greatly strengthened the Communist Party's internal control of Bulgaria and have improved its international bargaining position with reference to recognition by the US and the UK. The Communists, as a result of their campaign of terrorism, can now either form a purely Communist Government, or give token representation to other Fatherland Front parties and the Opposition until they are able to govern alone. Moreover, they can rebut protests regarding violation of the Yalta or Moscow agreements by pointing to the size of the Opposition vote as evidence of the existence of "democracy" in Bulgaria.

Although proof exists that fraud did obtain in the elections (particularly because all the votes could not possibly have been tabulated by the time the Government announced the distribution of seats in the Assembly), an accurate estimate cannot be made of the percentage of votes the Communists would have received in a free election. That they allowed the Opposition to tally nearly 30 percent of the total vote was probably due to their desire to appease both a sizeable internal Opposition and international opinion.

Although the Communists have thus made concessions to Anglo-American pressure for free elections, they probably do not consider US and UK recognition or an early peace treaty as vital to their position; the presence of Soviet troops in the country is to their advantage. The Opposition can only count on its meager foothold in the Assembly and upon the possible defection of other parties from the Communist-dominated Fatherland Front to stave off complete obliteration until such time as the departure of Soviet troops permits engaging the Communists on more equal terms.

## Economic Crisis Endangers French Political Stability

The current serious financial and food crisis in France may well affect the future political stability of that country. The crisis appears primarily attributable to the failure of the French Government to institute and enforce the fiscal and monetary measures necessary to obtain internal economic stability.

The following unfavorable trends may be noted: (1) lack of effective enforcement of government regulations controlling the distribution



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of rationed commodities and black market operations throughout the entire economy; (2) a growing public awareness that political expediency rather than consideration of economic stability and social welfare has largely determined the Government's domestic policy; (3) the inflationary effect of the increasing spiral of wages and prices; (4) steady increase in the volume of currency in circulation, now six times larger than in 1938, which is raising the specter of a further devaluation of the franc and inducing producers to withhold food from the market; and (5) serious public skepticism concerning the effectiveness of recently enacted legislation in eradicating the illegal practices which have become so widespread as to be considered a legitimate part of the economic system.

These developments have had a serious effect upon the morale of the French people and throw an ominous shadow over the coming elections. The average French voter is confused and discouraged because he cannot envisage any combination of parties which can avoid vitiating a constructive program through inter-party concessions. Certain Frenchmen of differing political views are therefore beginning to feel that, because democratic methods as practiced since the liberation have so far not produced results, some form of authoritarian government is needed. This could imply a Communist dictatorship or a resurgence of de Gaulle.

Should conditions deteriorate further, a major political crisis may be unavoidable, although France's economic position does not appear intrinsically hopeless in view of the recovery in food and industrial production (now 80-85% of pre-war) and the availability of foreign credits.

## Significance of the Italian Communist-Socialist Pact

Italy's orientation to the Left has been greatly stimulated by the recent Communist-Socialist agreement for joint action. This most significant political move coincides with a new foreign policy, which will seek more friendly relations with the Soviets, although professedly it will "depend neither upon the USSR against the US nor upon the US against the USSR."

The primary objective of the new Leftist agreement is allegedly the establishment of a "workers' society" through social and economic reforms. Specifically it outlines an 8-point program calling for: "liquidation of the Fascist residue; consolidation of the new democratic republic;



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industrial reform centered on nationalization of monopolistic industry, banks and utilities; agrarian reforms establishing cooperative farms and breaking up large estates; a balance between wages and the cost of living; social legislation; heavy taxation of the rich; and a foreign policy directed towards political and economic independence, international cooperation, and solidarity of interest with working classes and organizations throughout the world."

The new pact gives the Left a definite advantage over both the Right and Center in Italian politics. The new allies now have the largest bloc in the Constituent Assembly. Energetic efforts by the Left to deal with Italy's critical internal problems are expected to produce sharp conflicts between the Left and the Center and may be expected to drive the latter closer to the Right. The terms of the pact, however, are more nearly Socialist than Communist and have been accepted even by right-wing Socialists as acceptable. This suggests that for the time being at least the Socialists will have the principal voice in implementing the eight-point program.



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## Emerging Trends in South American Elections

The results of the recent elections in Chile and Venezuela, together with those of elections in other countries over the past year, point to the following four emergent trends which appear to obtain throughout South America.

The Communists are unable to deliver any substantial number of votes on election day and henceforth will probably be unable to force non-Communist left-wing parties to join them in electoral alliances. Peru's APRA, strongly and intelligently anti-Communist, won last year's congressional elections hands-down on a left wing program, and today dominates the political scene in that country. Venezuela's Accion Democratica, with a program so far to the left as to draw Conservative charges of a secret pact with Communism, made no bid for Communist support in the elections on 27 October and yet won 75% of the popular vote. The Chilean elections, won by a coalition in which the Communist Party participated, do not lend themselves to unambiguous interpretation in the above sense; but the new President, Gonzalez Videla, went out of his way after the final result had been announced to emphasize that Chile's "middle classes" were responsible for his victory. The elections in Argentina, though difficult to read in terms of a right-left division on the issues at stake, also gave power to a political grouping which had in no way solicited Communist support.

Political groupings pledged to constitutional democracy based on direct control of government by the masses of the people now have an advantage over groupings associated with South America's tradition of privilege, dictatorship, and oppression. No such issue was at stake in the elections in Chile, where the forms of constitutional democracy are well established; but in Peru, Argentina, and Venezuela the majority of the voters gave their support to leaders who appealed to Anglo-American conceptions of political democracy. President Peron's recent pledge to enfranchise women is a significant manifestation of this trend.

The trend is strongly against parties which favor the interests of large landowners, oppose the labor movement, and deny the State's responsibility to raise living-standards, to equalize economic opportunity, or to promote social security. Even in Colombia, the only South American country in which the "Conservatives" have won a recent election, the Conservative candidate (now President) Ospina Perez had committed him-



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self before the elections to a program of social and economic improvement no less "advanced" than that of his Liberal opponents. In the other countries--Peru, Argentina, Chile--the victorious party won power on a platform sharply critical of existing economic arrangements. "We want solutions; we don't want monuments" was the cry of the 20,000 packing-plant workers who paraded in front of the Legislative Palace in Buenos Aires on 24 October. The few votes accorded in recent South American elections to parties that promise no solutions suggest that their mood is typical of the entire Continent.

The trend is also against parties and leaders who profess to see behind the Good Neighbor policy long-range "imperialistic" designs, oppose cooperation with the US, and wish to halt or reverse the tendency towards increased economic interdependence between the US and Latin America. In Colombia--where the traditionally anti-US Conservative party won only because of a split in the more powerful, traditionally pro-US Liberal party--the Conservatives put forward a candidate who had only praise for the pro-US orientation of Colombian foreign policy. Peru's APRA, once vigorously anti-US, now appeals to its constituents in the name of inter-American cooperation and increased opportunities for local investment of US capital. Neither the Chilean nor the Venezuelan elections brought to light any political grouping--except, of course, the Communists--willing to stake its electoral fortunes upon opposition to US hegemony in the Hemisphere. This does not mean that resentment and distrust of the US has ceased to color public opinion in South America, or that South American countries are not extremely jealous of their sovereignty but rather indicates first, that South Americans in general have adopted a realistic attitude with respect to US leadership; and second, that opposition to the US is now discredited as a popular political theme. The apparent exception is Argentina; but both Peron's attempt to reduce the differences between the US and Argentina to a personal issue between "Bradenism" and "Peronism" and his recent conciliatory policy regarding Argentina's Chapultepec commitments suggest that he also recognizes the futility of anti-US agitation. The approaching elections for a constituent assembly in Bolivia and for a new congress in Columbia are expected to confirm these four trends.





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1. Soviet Budget for 1946
2. Soviet Intelligence Organizations in Latin America
3. Implications of the German Reparations Impasse



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# SOVIET BUDGET FOR 1946

The 1946 Soviet budget, as presented to the Supreme Soviet on 15 October, appears to represent a calculated effort to furnish Soviet propaganda agencies with the basic material for a campaign to demonstrate that the USSR is engaged in peacetime retrenchment. The major items (in billions of rubles) and corresponding figures for the preceding year are given below:

| | 1945 | 1946 |
|---|---|---|
| Industry | 74 | 102 |
| Social and Cultural Projects | 63 | 83 |
| Ministry of Armed Forces | 128 | 72 |
| Scientific Research | 2 | 5 |

The official propaganda machine has placed particular emphasis on the 54% cut in military appropriations, and on the fact that "cultural" undertakings have received a larger allotment than defense. In considering these figures, however, account must be taken of the characteristic obscurity of Soviet bookkeeping methods and of the fact that practically all Soviet allocations are designed to serve the openly-proclaimed policy of giving top priority to military considerations.

The cut in defense appropriations, for example, may be attributable in part to the fact that certain plants which were operated by defense ministries during the war have been turned back to their former management, but are still engaged in producing war material. The defense cut is also facilitated by the substantial number of Soviet troops which are subsisted and quartered at the expense of occupied areas. Moreover, the cessation of hostilities has not only furnished relief from the great costs of equipment destroyed or expended in combat, but has no doubt left certain surpluses which will serve to reduce requirements for some time to come.

The budget message specifically refers to "the great advances to be made in scientific research work to increase the production forces and the military and economic power of the country." The "cultural" expenditures probably also conceal a number of items of a military nature. Much of the scientific research is being conducted in educational institutions, and presumably is being financed as an educational endeavor, and there is evidence that the "physical culture" courses conducted by schools and youth organizations are in fact designed to serve as a pre-military training program.





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## SOVIET INTELLIGENCE ORGANIZATIONS IN LATIN AMERICA

At least three distinct agencies are known to share responsibility for implementing the broadly defined Soviet intelligence objectives in Latin America discussed in a previous article (see Weekly Summary of 25 October 1946). These agencies are: (1) the Foreign Administration of the Ministry of State Security (MGB), specializing in the collection of political and economic intelligence and the penetration of political organizations and potentially hostile intelligence services; (2) the intelligence service of the Armed Forces (RU), specializing in military, scientific, and technical information; (3) the international network of Communist Party agents who, besides directing local Communist Party activity, help to collect political information and to determine intelligence policy.

Over-all strategy for Soviet intelligence operations in any major foreign area apparently is coordinated by a board composed of the ranking local representatives of MGB, RU, the Communist Party, and the press and propaganda services, who among them control all operatives in the area.

Reports from Latin America indicate that certain Soviet embassies and legations exercise greater influence than others upon intelligence activities. If intelligence strategy boards exist in Latin America they are probably based upon these more important embassies and legations. The Soviet Embassy in Mexico, for example, seems to play a dominant role in intelligence; therefore, a strategy board coordinating Soviet intelligence for the entire Latin American area would probably use Mexico City as a base.

Of the fifteen Latin American countries with which the USSR now maintains diplomatic relations, Soviet embassies or legations have been established in eight (Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Uruguay, and Venezuela). Available evidence suggests that three of these besides Mexico -- Cuba, Colombia, and Uruguay -- have, until recently at least, been active in intelligence operations and may have served as auxiliary control centers. Recent reports indicate, however, that the Soviet Embassy in Argentina is being developed as a major intelligence center, and may assume the dominant role in South America.

In "covering" their intelligence activities in the Hemisphere the Soviets do not have to rely exclusively upon their diplomatic representa-





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tives. The Soviet news agency, TASS, now represented in Brazil, Uruguay, and Argentina, is certain to be useful in this connection, as is the Soviet Trade Mission recently established in Argentina.

A Soviet diplomatic mission in Latin America usually has comprised six to eight officially accredited persons, but apparently this number is now being increased. The new Embassy in Argentina, for instance, will be larger than any of the missions established during the war. The Uruguayan-Soviet trade treaty provides for a 23-man Soviet trade delegation in Uruguay. Increases are also being sought in the consular representation in several countries.

Soviet officials in Latin America have been extremely cautious as regards their contacts with local Communist parties, and have usually confined their open activities to negotiating commercial agreements and fostering cultural propaganda organizations which favor the USSR. This has made it difficult to identify intelligence representatives and their agents. There is, however, reason to believe that MGB officers hold the posts of Second Secretary in Colombia and in Uruguay, and that certain attaches in Venezuela and Chile are either MGB or Communist Party representatives. An Assistant Military Attache and a Third Secretary in the Soviet Embassy in Mexico are believed to be RU operatives; their activities seem in part directed against the US.

These and other Soviet diplomatic representatives apparently maintain secret contacts with local Communist Parties, organize Slavic minority groups under Communist leadership, negotiate with Communist labor leaders, do secret propaganda work, and to some extent direct recruitment of espionage agents.

TASS agents cable a much larger volume of "clear" reports to Moscow than they furnish to the local press. They serve as an open intelligence service for the USSR, supplementing the clandestine work of the three other organizations.





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## IMPLICATIONS OF THE GERMAN REPARATIONS IMPASSE

The Inter-Allied Reparations Agency's recent appeal to the Council of Foreign Ministers for remedial action on the stalemated German reparations problem coincides with dissatisfaction at the delays in implementing the Potsdam agreement. The reparations controversy has raised so many issues that a quadripartite re-examination of Allied policy toward Germany may result.

The Big Four have approached the reparations problem in terms of their individual requirements and objectives. The US attitude toward this problem differs basically from that of the UK, France, and the USSR. The US does not require German industrial plants or machinery for reconstruction purposes and consequently is interested in reparations primarily as an element in the ultimate solution of the German problem. On the other hand, the UK, France, and USSR are in vital need of German reparations to rehabilitate their damaged economies.

Divergent interests of the Big Four have produced the present reparations deadlock. In May, the US suspended the dismantling of German plants, in part destined for the USSR, because it recognized that prior to the establishment of economic unity and the final delineation of boundaries it would be impossible to determine what industries should be left in Germany to allow a self-sustaining economy. The US also hoped that by thus withholding needed capital equipment it might force Soviet compliance with other provisions of the Potsdam agreement. However, little progress has been made in implementing the Potsdam declaration, and in the meantime the stagnation in reparations is actually hurting the UK and France, as well as the USSR.

The IARA appeal to the CFM was generally regarded as an attack upon the US policy of withholding the delivery of capital equipment from the US zone. The UK, however, supported the IARA appeal even though it was sympathetic to the US efforts to implement the Potsdam agreement, because it has critical need for German capital equipment. France supported the resolution because of its urgent rehabilitation needs and its inherent opposition to the economic rehabilitation of a traditional enemy.

The USSR, with exclusive rights to removals from its own zone, has apparently been getting large quantities of plants and equipment in spite of the refusal of deliveries from the US zone. However, there have





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been indications recently that the USSR has a more immediate and critical need for consumer goods from current German production than for further capital equipment. The USSR can obtain these consumer goods only through quadripartite action, because most of the surplus current production which the Soviets need is under the control of the Western Powers and the Potsdam agreement stipulated that imports required to maintain the agreed standard of living in Germany shall be a first charge on exports from current production.

When, therefore, the Council of Foreign Ministers considers the IARA appeal, the special interests of the individual powers in reparations may force discussion of the problem of current production and the broader questions of the economic and political future of Germany. The way may then be opened, at the level of the Council of Foreign Ministers, for a comprehensive agreement, involving civil liberties, political freedom, economic unity, and the German economic potential, as well as on reparations.

Whether or not such an agreement can be reached will probably depend largely upon the Soviet attitude. The poor showing of the Soviet-supported parties in the recent German elections, as well as the acute need for consumer goods, suggest that the USSR may now find it expedient to offer substantial concessions to the Western point of view in return for reparations out of the current production of an enlarged German economic potential.



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## Significance of Personnel Changes in Soviet Hierarchy

The announcement that V. S. Abakumov has been appointed Minister of State Security and that G. M. Malenkov has been relieved of his duties as member of the Presidium of the Supreme Soviet and designated Deputy Chairman of the Council of Ministers, may have some connection with reports that Stalin is in poor health and is absent from Moscow. If Stalin really is ill, any present jockeying for position among members of the Kremlin's ruling clique may foreshadow a serious rivalry among possible successors.

Little is known of Abakumov's background except that he was reportedly chief of the Soviet Army's counter-intelligence service during the war, and has since been Deputy Commissar of the NKVD (now MVD) in charge of counter-espionage. The first hint of his elevation to ministerial rank was the prominent position given him at Stalin's dinner for the Czechoslovak Premier on 25 July. His role as chief of the Ministry of State Security (MGB) is one of great responsibility, since that organization has assumed most of the secret police functions formerly carried out by the NKVD.

Abakumov's appointment confirms rumors which have been circulating for some time to the effect that the former MGB chief, V. N. Merkulov, had been dismissed from his post. Some of these rumors have suggested that Merkulov had fallen into disfavor, but it is equally possible that he has been shifted to some other responsible work. He was formerly considered the right-hand man of Marshal Beria, ex-chief of NKVD, who is now believed to be supervising the Soviet atomic project. Merkulov may have joined Beria in this undertaking.

Malenkov's reassignment is of particular interest in view of his apparent preeminent position in the Kremlin's inner circle. He has often been mentioned as the candidate most favored to succeed Stalin. He has for some time held the positions of Secretary and Director of Personnel of the Central Executive Committee of the Communist Party--positions comparable to those which Stalin held at Lenin's death. While there is no evidence that Malenkov has been removed from these key positions, a report from a usually reliable source indicates that he has fallen into





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disfavor. Such a possibility takes on added weight from the fact that in the current clean-up in intellectual and agricultural circles, Zhdanov, another contender for supreme power, appears to have been selected to serve as Party "hatchet man."

Communist Setback in Hungary

Premier Nagy's majority Smallholders Party appears to have won its latest behind-the-scenes struggle for political power with the leftist parties and to have averted temporarily any further Soviet domination of Hungary.

Since the formation of the present coalition Government, Nagy, despite his Party's 60% majority, has compromised both with the right wing in his Party, which resents Communist participation in the Government, and with the Communists. The latter have relied on the presence of the Soviets to extend their influence in the Government far beyond that justified by their popular vote (16% of the total) in the last elections. Although Nagy's middle-of-the-road policy has resulted in numerous political crises, Hungary has been far more successful than other satellite states in maintaining a degree of independence from Soviet control. The Soviets have deeply penetrated Hungary's economy through the formation of joint Soviet-Hungarian corporations, but the country still enjoys substantial freedom of press, religion and political activity.

The latest crisis grew out of Nagy's determination to capitalize on popular discontent with Soviet failure to support Hungary at Paris. Accordingly he increased his resistance to Soviet influence and encouraged political and economic orientation to the West. It was expected that the Communists would retaliate with demands for sweeping concessions from the Smallholders, including expulsion from the Party and the Assembly of extreme rightist Smallholders, and for sweeping electoral "reforms." However, the reluctance of the USSR to intervene in behalf of the Communists and of the leftist Social Democrats to support the extreme Communist position forced the Communists to modify their demands to a point where they can be acceptable to the Smallholders.





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## Outlook for the Rumanian Elections

US and UK protests to the Rumanian Government concerning the elections now scheduled for 19 November will probably have no appreciable effect on their outcome. The Groza Government's Democratic Bloc is determined to win at least an 85% majority. In order to achieve this end despite overwhelming popular disapproval of its policies, the Government has conducted an electoral campaign of unprecedented violence and intimidation and has flagrantly ignored its adherence to Moscow and Yalta assurances for free elections.

The extreme methods employed by the Government indicate its realization that free and democratic elections would result in a substantial victory for the Opposition. Acute food shortages, the severe economic burden of reparations to the USSR and the dictatorial suppression of all personal liberties have accentuated the hatred of the majority of Rumanians for Communism and the USSR. Moreover, despite the drastic purge of the Rumanian Army and intensive Communist efforts through propaganda to win Army support, many high ranking Rumanian Army officers only pay lip-service to the Groza Government, and enlisted personnel remain predominantly anti-Communist. If Soviet troops are withdrawn, the Groza Government probably will not be able to rely on the Rumanian Army in case of uprisings.

The elections will present a serious problem for the US and UK. Recognition of a Rumanian Government that does not represent the free will of the people would constitute a direct violation of the Anglo-American pledges at Potsdam, Moscow and Yalta. Recognition would also be a serious blow to the morale of opposition groups in all the satellite countries. Failure to recognize the new Government, on the other hand, would make it difficult for the US and UK to sign a peace treaty with Rumania, and thus to compel the withdrawal of Soviet troops and to facilitate negotiations for the internationalization of the Danube.

## Hoxha Questions Status of US Mission to Albania

In a renewed and seemingly paradoxical effort to obtain US recognition and admission of Albania to UN, Premier Hoxha this week publicly





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attacked the US Mission to Tirana and implied that, since the US apparently does not intend to recognize his Government, the continued presence of the Mission no longer serves any purpose. He apparently believes that this move will force the US to recognize his Government in order to protect its interests in Albania.

It is unlikely that Hoxha will carry out his threat to expel the Mission, because Albania strongly desires admittance to the UN, and Hoxha realizes that recognition by the major powers, and particularly by the US, is a prerequisite to acceptance of his UN application.

## Significance of the German Elections

The 20 October elections in Berlin and the Soviet zone are significant primarily as a protest against Soviet influence as represented by the Communist-dominated SED. They may also encourage anti-Communist groups in neighboring countries. The combination of the 70% Social Democrat-Christian Democrat vote in Berlin and the bare majority won by the SED in the Soviet zone makes it impossible for the Kremlin to hope that the present SED can now gain a genuine popular mandate in any free election, even with the support of intensive propaganda from Soviet military authorities. Soviet realization of this fact may have widespread repercussions, including changes in Soviet policy in Germany.

In Berlin, the Soviets may virtually abandon the SED as a means of obtaining substantial popular support and may concentrate on keeping Communists in a few key Government positions. They may concurrently tighten their economic stranglehold on the city in order to increase the difficulties of the other occupying powers and of the new municipal government.

Within their own zone, the Soviets can ill afford to desert the SED, although a reshuffling of Soviet and German leaders associated with the Unity Party's setback would appear logical. Unless the Soviets are prepared to adopt in their zone a policy of outright suppression of opposition parties, they may well make a renewed attempt to broaden SED influence by playing down Marxian dogma in order to attract "progressive" elements from the moderate groups. In this connection, it has been rumored





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that the Soviets may shortly establish a zonal parliament and then claim credit for setting up the first such "democratically" elected body in all Germany. If the SED retained even a bare majority in such an assembly, the Communists would be able to exert a disproportionate influence when a German central administration is established for all zones.

For western and southern Germany, the Berlin elections signify not only a victory for the moderate parties but the re-emergence of Berlin as a key political arena in which moderate factions can vie for power without fear of Communist domination.

## Cabinet Changes in Iran

On 19 October Qavam removed from his Cabinet the three Tudeh Party members and the pro-Soviet Ministers Muzzafer and General Firuz, replacing them by ministers more loyal to Qavam and less influenced by the USSR. This shake-up in the Iranian Cabinet came as a reaction to the Government's policy of appeasing the USSR. The change was precipitated by Qavam's calling a general election, in deference to Soviet pressure, at a time when both the disunited state of the country and a leftist-dominated Government made fair elections impossible.

Although the Shah had frequently expressed a desire to dismiss Qavam, he hesitated to act because of the latter's political strength and the difficulty of finding an able man to replace him. Having been advised by the British and US Ambassadors that some action must be taken if Iran was to retain its independence, and being assured of the Army's loyalty, the Shah demanded that Qavam rid the Cabinet of pro-Soviet Ministers.

As a result of the change, negotiations have been broken off between the Azerbaijan delegation and the Central Government, and there is a possibility of armed hostilities. The reaction of the USSR is expected to be violent, and it is probable that the Tudeh Party will organize demonstrations leading to serious disturbances. On the other hand, the conservative religious and land-owning groups are at best only partially satisfied and have stated that the new Cabinet is hand picked by Qavam, whom they still consider to be dominated by the USSR.





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**The Shah, realizing the critical position of his Government and apprehensive of Soviet reaction to this recent show of Iranian independence, has made several strong pleas for an important public gesture of US economic support.**





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Resumption of Peace Negotiations in China

The decision of the Chinese Communists to rejoin the truce negotiations in Nanking is a pawn's move in the perpetual chess game in which each side seeks ultimately to checkmate and liquidate the other. This action postpones a break which recently had appeared imminent.

The National Government, through a series of military drives during the past four months, has made important territorial and political gains, culminating in the capture of Kalgan. This aggressive action has, from the point of view of its advocates within the National Government, been successful. They urge that it be continued. The drives have, however, imposed heavy financial burdens which have accelerated inflation and the disruption of economic rehabilitation. Furthermore, military stocks of the National Government have been depleted and must be built up from purchases abroad if similar campaigns are to be launched in the spring. Advocates of a policy of political compromise--both within and outside the Government--are again exercising strong pressure for truce. They have persuaded the Generalissimo to put forth conciliatory terms, and have induced Communist negotiator Chou En-Lai to return to Nanking for further discussions. The Generalissimo wishes to hold the National Assembly as scheduled, on 12 November, and to induce the Communists and minor parties to attend. Both the timing and broad participation are important for the Government's domestic and international prestige.

Communist prestige in China and abroad has suffered considerably as a result of Nationalist military successes. While the Communists are confident of their ability to make war enormously costly to the National Government through guerrilla warfare and civil disturbance, they probably believe their goal of ultimate domination of China is better served, for the present, through political rather than military means--provided they obtain a political settlement which allows them much greater constitutional freedom, a protective "veto" power in the top level of the National Government, and control of a sizeable area. Besides their mili-





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tary threat, the Communists hold two others. They probably can induce most of the minor parties to boycott the National Assembly. This is a short-term bargaining advantage. They can also threaten to establish a separate state. To carry this threat out would require a decisive change in Communist policy because its national implication is outright civil war. In addition, there is the ever-present threat of material Soviet support to the Communists, both by direct aid and through pressure on the National Government.

In this framework the negotiations in Nanking assume the character of a tactical maneuver for both the Government and the Communists. The Government evidently will seek a quick agreement allowing the National Assembly to meet on schedule with a broad representation of parties. The Communists presumably will haggle for political concessions which probably cannot be worked out to their satisfaction before 12 November. They apparently desire both a truce and a postponement of the Assembly until broad agreements on the whole range of political and military issues can be arbitrated. The immediate issue posed by Chou En-lai's return to Nanking is whether the Assembly shall again be postponed. The decision on this point will furnish a clue as to whether there will be continued warfare or compromise during the next few months.

## Venezuela's Junta Government Faces Test

On 27 October, approximately a year after the rise to power of its present "Junta" Government, Venezuela will elect delegates to an assembly which will rewrite the country's constitution. Many Venezuelans regard the latter as outmoded and anti-democratic because it provides for indirect election of the chief executive. Constitutional issues as such, however, attracted little attention during the long and sometimes bitter electoral campaign which has made the forthcoming ballot primarily a test of the popular strength of Junta President Romulo Betancourt and his Accion Democratica.





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Informed observers have made no flat predictions regarding the results of the election. Betancourt and his associates seized power through a remarkably swift and bloodless coup d'etat engineered with the assistance of junior and field-grade officers in the army. As eloquent spokesmen of the economic and political grievances of the masses of the Venezuelan people, they enjoyed great popularity through a months-long period during which many opposition leaders were kept in jail. Two omnipresent problems--the Communists and the rising cost of living--have caused the tide to turn against them in recent weeks; the chief question to which Sunday's election will provide an answer is whether the reversal of popular sentiment has gone far enough to prevent their continuance in power.

The choice of 27 October as the date for the ballot has apparently been dictated less by the Junta's confidence in its prospects than by its wish to avoid charges of opportunistic delaying tactics. Rumors are current that a revolt will occur before the poll begins. In view of recent assurances by Army leaders, however, it is estimated that the elections will occur on the scheduled date, that the votes will be fairly counted, and that the elections will provide a reasonably accurate test of the relative strength of Venezuela's major political groupings. Venezuela's peculiar electoral law makes it improbable, however, that any single party will control a majority of the seats in the new assembly; and no one yet knows whether the assembly will regard the choice of a provisional president as one of its prerogatives.





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# SPECIAL ARTICLES

## 1. Soviet Intelligence Objectives in Latin America



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# SOVIET INTELLIGENCE OBJECTIVES IN LATIN AMERICA

The Soviet intelligence services, unlike those of the western powers, are a positive and active instrument of policy charged with responsibility not only for collecting information but also for liquidating or converting to Communism persons and groups whose ideology differs from that of the Soviet Union. It is thus doubly important for Soviet intelligence to "penetrate" actual or potential centers of opposition to the USSR, including foreign intelligence and diplomatic services, and to coordinate its efforts with Communist parties and other subversive organizations abroad.

Before launching a large regional intelligence operation, as it recently has in Latin America, the USSR makes a first-hand survey of the intelligence and security problem presented, defines Soviet objectives in the area, and then sets up offices and designates personnel appropriate to these objectives. The organizational forms of Soviet intelligence, therefore, often differ fundamentally from country to country; it is, however, possible to infer the probable pattern of Soviet intelligence in an area or country from a knowledge of its local objectives.

In Latin America, the USSR's prime objective is undoubtedly to counter US influence; Soviet intelligence activity in the region will therefore shape itself to that end. The Latin American Republics are of interest to the Soviets primarily as potentially active allies against the Anglo-Saxon powers or, failing that, as countries that might be induced to hold their support of the Anglo-Saxon powers to a minimum in any future war. In the realm of political or social intelligence the Soviets may thus be expected to show an active interest in all twenty of the Latin American countries; in the field of positive military and technical intelligence they will probably concentrate their efforts upon the more powerful--Mexico, Brazil, Argentina, Chile, and Peru.

The above analysis is confirmed by all available evidence concerning the specific objectives of Soviet intelligence operatives in Latin America. These objectives, over and above that of collecting positive military intelligence, appear to be: (1) to undermine US and British influence and prestige, and to conduct active counter-espionage against US and UK embassies, consulates, and intelligence services; (2) to foster political sub-





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version and unrest; (3) to control the trade union movement, particularly in key industries and in strategic areas like the Panama Canal Zone.

In addition to these general objectives certain specific aims are apparent in particular Latin American countries, notably: to court Argentina as the traditional major opponent of US influence in Latin America, and to foster Communist-controlled Slavic minority groups in the River Plate area and in Chile as a potential fifth column and espionage network.





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# WEEKLY SUMMARY

18 OCT

## Significant Trends

Soviet Pressure on the German Christian and Liberal Parties . . . . . 1
Impact of US-Icelandic Agreement on Communist Position . . . . . 1
Soviets Indicate Interest in Reconvening Korean Joint Commission . . . . . 2
Burmese Coalition Breaks with the Communists . . 3
Inter-American Measures to Exclude Nazis . . . . . 3

## Special Articles

Soviet Agricultural Difficulties . . . . . 1
Organization and Functions of the Soviet Ministry of State Security . . . . . iii

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## Soviet Pressure on the German Christian and Liberal Parties

There are indications that the Soviet authorities are attempting in their zone by a mixture of threats and persuasion to induce the Christian Democratic Union and the Liberal Democratic Party to adopt an eastern orientation. The Soviets, according to CDU leader Jacob Kaiser, apparently are taking the line that both of these non-Marxist parties contain progressive forces which the USSR could respect if they were separated from the reactionary elements inclined toward western capitalism, particularly of the "unfriendly" US variety. Simultaneously the Soviet authorities have threatened to take strong measures if these "reactionary" elements prevent the two parties from joining with the Communist-dominated SED in working for the common goals of the "anti-Fascist front."

Apparently the Soviet authorities were greatly disappointed with the relatively poor showing made by the SED in the last communal elections in the Soviet zone and have concluded that they will have to broaden their appeal by cutting across the Marxist line to win adherents from the "bourgeois" camp for a united, pro-Soviet front. The trend coincides with a more conciliatory attitude recently adopted by the Soviets in the Allied Control Council and reflects their strong desire to see the SED win a more convincing majority in the forthcoming county elections in the Soviet zone than it did in the communal elections held last month.

## Impact of US-Icelandic Agreement on Communist Position

The Icelandic Communists, with probable guidance from Moscow, organized a determined opposition against the US base proposals which succeeded in severely limiting the rights obtained by the US. The Communists, however, clearly overplayed their hand and aroused unfavorable popular reaction by their use of violence, intimidation, and an illegal general strike in order to influence the outcome of the Althing debates on the US proposals. Moreover, they demonstrated a striking lack of acumen by failing to capitalize politically on the concessions won from the US.

In spite of earlier threats to withdraw from the coalition if the base agreement was signed, the Communists have decided to remain in the





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present coalition Government until its successor can be formed. (Prime Minister Thors submitted the resignation of his Cabinet following Althing ratification of the base agreement.) The Communists will probably even participate in the next Cabinet in the hope of regaining their lost prestige. In any event it appears probable that the Communists will be incapable for some time of interfering seriously with the implementation of the base agreement.

## Soviets Indicate Interest in Reconvening Korean Joint Commission

The recent unofficial Soviet invitation to discuss resumption of Joint Commission negotiations for the formation of a Korean provisional government seems to reflect Soviet concern over the progress of the US-sponsored movement for the unification of political parties in South Korea. The offer may also indicate that the Soviets now consider that they have established sufficient economic and political control over North Korea to permit them to modify their previous interpretations of the Moscow decision. (These interpretations led to the adjournment of the Joint Commission on 6 May and US efforts to develop independently a program for South Korea.)

Communist-instigated strikes and riots in South Korea in late September failed to check the unification movement which by 7 October had resulted in a declaration by rightists and leftists in favor of establishing a South Korean advisory legislature. The Soviets now seem to be seeking by indirect means to gain what the Communists failed to achieve by direct action. They apparently recognize that popular interest in South Korea either in local political unification or an advisory legislature would dwindle once the question of establishing a provisional government for all Korea were opened. Actual resumption of negotiations, however, awaits US-Soviet agreement on the cooperation to be required of Korean parties in fulfillment of the Moscow decision. It is to be expected the Soviets will press for a unified Korea and the evacuation of both Soviet and US armed forces, as soon as they have satisfied themselves that they have prepared the ground for ultimate Communist control of the prospective regime.





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## Burmese Coalition Breaks with the Communists

The Anti-Fascist Peoples Freedom League which controls the newly-created Executive Council in Burma is taking steps to expel all Communists from its membership. This action, precipitated by current Communist-instigated strikes among Government-sponsored firms in Rangoon, culminates efforts by moderates within the once Communist-dominated League to eliminate extremist elements and presages a showdown fight with the Communist Party. It indicates the League's determination to assume responsibility for dealing with internal problems and to justify further British extension of Burmese self-government. Failure of the League to end the new strikes and prevent future Communist disturbances would weaken not only the League's prestige but also the cause of Burmese independence.

## Inter-American Measures to Exclude Nazis

The Inter-American Emergency Advisory Committee for Political Defense, with headquarters in Montevideo, is moving to prevent use of the Western Hemisphere as a base of operations in any future attempt to rebuild a powerful Germany. Citing Resolution VII of the Conference of Chapultepec as its directive, the committee is taking steps to assure: (1) continuous cooperative action by the American Republics in maintaining lists of former Axis officials and agents who might seek entry into the Hemisphere from neutral countries to which they have fled; (2) with special reference to Spain (where 700 of the most dangerous of the persons in question now reside), immediate consultation among Hemisphere diplomats there to preclude any person who has engaged in pro-Axis activities from obtaining a visa for entry into one of the American Republics. (The committee points out that similar machinery for consultation may be needed later in other neutral countries.)

The Committee has forwarded recommendations to the Governments of all American Republics looking to the accomplishment of these objectives, the urgency of which is emphasized by the facts that British Navicert controls over passenger ships expired on 30 September, and that representatives of certain American Governments have in the past issued passports to persons listed for repatriation to Germany by the Allied Powers.





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Resolution VII of the Conference of Chapultepec differs from previous inter-American pronouncements on this problem in that it refers not to subversive elements in general but exclusively to persons who assisted the Axis. However, the machinery envisaged by the committee might, if successfully established, prove useful in future in dealing with any subversive movement seeking a foothold in the Hemisphere.





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# SPECIAL ARTICLES

1. Soviet Agricultural Difficulties

2. Organization and Functions of the Soviet Ministry of State Security



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# SOVIET AGRICULTURAL DIFFICULTIES

Recent reports indicate that Soviet agriculture is encountering considerable difficulty. US correspondents on the basis of personal observation report evidence of malnutrition in the Ukraine and White Russia and predict serious food shortages by spring unless UNRRA aid is continued. Reports from Birobidzhan (Eastern Siberia) and Kazakhstan (Central Asia) indicate that bread is the only food regularly available to most of the populace. The Soviets have demanded from Hungary an additional 63,400 tons of bread cereals, justifying their request on the ground of poor crops in the USSR.

In spite of these and other evidences of shortage, the estimate of the US Agricultural Attache in Moscow places this year's net production of bread grains at 2.5 million tons above that of 1945. In seeking an explanation of this apparent paradox account must be taken of certain fundamental factors affecting the present and future condition of Soviet agriculture.

Substantial elements of the rural population in the USSR for years have resisted collectivism. Opposition to the regimentation accompanying the First Five-Year Plan in the early thirties reached the point of armed rebellion in a number of areas, especially in the Ukraine. This resistance, coupled with the ruthless official reprisals which followed, resulted in a famine which cost millions of lives. Since then, 99% of cultivated land in the USSR has been collectivized, but the government policy of squeezing an ever-increasing proportion of produce from the farms to feed the growing industrial population kept local resistance smoldering. War-time confusion permitted opponents of collectivism to circumvent regulations by concealing produce from government agents and using it for extensive private barter and sale. An official campaign recently has been launched against these "capitalist tendencies" and numerous individuals are being brought to trial on charges of "speculation" and "profiteering." A new decree has been issued centralizing all agriculture under a Council of Collective Farm Affairs, and the Government doubtless will move vigorously to restore complete official control over all agricultural activity.

Other problems, however, confront the directors of Soviet agriculture. Reconstruction of rural housing in areas devastated by the





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Germans is far behind schedule, discouraging demobilized service personnel and evacuees from returning to their former homes. There is a serious shortage of farm machinery and draft animals. Epidemics are reported to have taken a heavy toll of livestock, and reparations from former enemy areas appear disappointing.

In spite of these difficulties, however, available evidence indicates that present crops are not below normal. The recently announced ration restrictions therefore cannot be attributed to a current shortage unless local evasion has diverted substantial supplies from government channels. One logical possibility is that these restrictions, primarily affecting persons not engaged in useful occupations, are designed to force members of this group into productive work, thereby increasing the labor supply. Another explanation is that substantial stock-piling may be in progress. Such stock-piling presumably would be designed to serve one or more of the following purposes: to meet military requirements; to furnish a supply from which "gifts" may be made to satellite countries at politically strategic moments, especially just before elections; or to create a reserve until discipline is restored among dissident rural elements.





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# ORGANIZATION AND FUNCTIONS OF THE SOVIET MINISTRY OF STATE SECURITY

Since 1943 the Soviet Ministry of State Security (MGB), charged with secret domestic and foreign intelligence, has risen from a subdivision within the former NKVD to become an agency of approximately equal status with the latter. It was created as the NKGB in 1943 and was known as such until last March. The People's Commissariat of Internal Affairs (NKVD) is now the Ministry of Internal Affairs, (abbreviated as MVD). MVD personnel are engaged in overt security activity and wear distinctive uniforms. The two agencies cooperate with each other and with other intelligence organizations under the overall direction of Marshal L. P. Beriya, who, as a member of the Politburo, reports only to Stalin.

The MGB is charged with maintaining secret surveillance of the population and with the conduct of counter-espionage within the USSR, as well as with secret strategic intelligence abroad. It operates through a system of agent networks. Representatives are assigned as official representatives to embassies, legations and consulates in foreign countries, where they act as liaison officers between Moscow headquarters and Communist Party networks in the field.

MGB officials were given military status and rank in July 1945. Their chief, V. N. Merkulov, a former Czarist officer who did not join the Communist Party until 1922 and who is a close friend of Beriya's, was made an Army General at that time. He received the Order of Kutuzov, First Class, in March 1944, and has recently been on an "inspection" trip outside the USSR.

To carry out its mission, the MGB is organized into operating "Administrations" as well as a group of "Special Sections." Separate "Administrations" are responsible for guarding the Kremlin and important officials; surveillance of the people; counter-espionage within the USSR and counter-intelligence abroad; secret intelligence within occupied territories (of which the present status is uncertain); surveillance of the activities of foreigners in the Soviet Union and administration of intelligence and counter-intelligence abroad; counter-intelligence and detection of corruption in Soviet industry and agriculture; counter-intelligence in Soviet communications; and investigation of suspects together with recommendations for suitable action.





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The "Special Sections" maintain dossiers on agents, Party members and other Soviet nationals; supply equipment for intelligence activities; control intelligence and counter-intelligence projects; operate networks in MVD labor camps; censor communications and publications; provide codes for intelligence activities; operate MGB schools (of which at least 25 are known to exist); and perform administrative functions. (The present status of a special section for combatting enemy partisans during the war is uncertain.)

An elaborate school system trains agents according to their abilities and assignments. Schools are guarded by MVD police under conditions of the highest security. Students are usually known to each other only by assumed names. The most promising graduates of basic schools receive advanced training as saboteurs and agents.

Besides influencing the life and thoughts of every individual within the USSR, the MGB, through its numerous carefully indoctrinated and supervised agents, has effected an extensive penetration of the cultural, political and industrial life of virtually all foreign countries. Even greater emphasis on MGB activities may be expected so long as Merkulov and Beriya remain in power.





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# WEEKLY SUMMARY

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Significance of Further Soviet Rationing . . . . . 1
Stalin Interview Causes Little Change in Soviet Propaganda . . . . . 1
Inspection of German War Potential . . . . . 2
De Gaulle and The French Political Situation. . . . . 3
Middle Eastern Reaction to President Truman's Statement on Palestine . . . . . 4

## Special Articles

Economic Pressure on Franco . . . . . i
Soviet and Chinese Interests in Sinkiang. . . . . iii

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## Significance of Further Soviet Rationing

In contrast to Stalin's expressed expectation that food rationing would be progressively abolished in 1946-47, the Soviet Government this week announced a cut in dependents' bread rations and an increase of 5 years in the minimum requirements for food cards for old-age unemployed.

There is evidence that these restrictions resulted from a miscalculation of the expected bread-grain yield (which has been officially attributed to drought in the Ukraine and floods in Siberia) and by inefficiency of agricultural administrators. It appears probable, however, that this increased rationing represents an effort to improve the labor situation by providing additional workers both from older groups and from women who will now be compelled to seek employment in order to supplement their own and their children's rations. The Soviets apparently also are trying to keep their military bread-grain reserves intact and possibly to augment them.

## Stalin Interview Causes Little Change in Soviet Propaganda

The Soviet propaganda line has been affected by Stalin's replies to Alexander Werth even less than was at first expected. Although factual reports of the interview have received wide circulation in the USSR, editorial comment has been surprisingly meager. The tendency of such comment has been to emphasize the political disunity which Stalin's words have created abroad rather than stress any soothing effect which the interview may have had upon the world situation.

In most cases the Soviet press has quoted from left-wing commentators and foreign publications to show how Stalin had discredited the proponents of "atomic diplomacy" in their own countries. By implication, the Soviet leader's words are credited not only with weakening US and British advocates of a firm policy toward the USSR, but with driving a wedge into the "Anglo-American bloc."

The Soviet citizen, however, is given no reason to feel secure from foreign aggression. The threat of "capitalist encirclement" was the subject of a particularly emphatic article in a recent issue of the





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Young Communist paper, KOMSOMOLSKAYA PRAVDA. "The most important function of the dictatorship of the working class," according to this article, "is the defense of socialist achievements against attacks from the outside. While we live in capitalist encirclement, danger of military attack from the outside exists."

It thus appears that Stalin's words were designed, not primarily to ease the Soviet people's fear of another war, but rather to suggest that the exclusive responsibility for such fears rests with the Western Powers.

Inspection of German War Potential

After months of opposition to any form of quadripartite inspection in the Soviet zone, the Soviet representative on the Control Council at Berlin recently reversed his position by voting for the establishment of four-power commissions to inspect demilitarization of German industry in all zones. These commissions, if permitted genuine freedom of action, may accomplish approximately what the disarmament commission was intended to do and may put to rest disquieting charges and rumors that secret war production has been encouraged by the occupying powers in Germany.

This sudden reversal of Soviet policy significantly coincides with reports of the formation of a mammoth combine, known as Sowjetische Industrie, A.G., embracing key industries of the Soviet zone. Since the Soviets reportedly own a controlling interest in all factories, mines and trusts comprising this "Corporation of Soviet Industry," they may therefore intend to exclude these enterprises from quadripartite inspection on the grounds that they are Soviet property. The Soviets may attempt to justify this position by the legalistic argument that armament production in Soviet-owned plants is not a contribution to "Germany's war potential" within the sense of the Potsdam Agreement.





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## De Gaulle and the French Political Situation

De Gaulle's sudden and unexpected call for the rejection of the draft constitution, following his inconclusive speech, injects a major element of uncertainty into the French political situation. In view of the apparent intention of the three major parties -- the MRP (with Church support), Socialist and Communist -- to maintain their coalition in support of the draft, it appears unlikely that De Gaulle's stand will prevent a favorable vote in the 13 October referendum. It appears almost certain, however, that De Gaulle's pronouncement will have a vital effect upon the November elections and upon the subsequent composition and alignment of the French political parties.

De Gaulle's pronouncement indicates a final break with Bidault and the MRP, which in the last election displaced the Communists as numerically the leading party in the country. He has not as yet indicated, however, his future course of action. It is clear that he has given up any intention he may have had of limiting his opposition to the draft to an expression of his disapproval, and of attempting to obtain in the next Assembly, through MRP support, the desired modifications in the constitution. In all probability he will be guided to a large extent by the size of the "No" votes on the referendum. Prior to De Gaulle's latest statement, the Interior Ministry had estimated a majority for the draft of 65 to 70 percent. Latest indications suggest that this majority will be definitely reduced, and the possibility of a political upset -- the "greatest" since the liberation -- is admitted. If the draft wins by a narrow margin, or is defeated, De Gaulle might support the Gaullist Union (which has not yet received his official blessing) as a participant in the November elections and announce his candidacy for President. Should he follow this course, the MRP would be the major loser, and the Communists would probably again emerge as the largest single party in the Assembly. If De Gaulle's followers should make a good showing in the November elections, the lines might then be drawn for a clear-cut struggle between the Communists and Socialists on the one hand and De Gaulle on the other; if not, De Gaulle would probably be eliminated as an effective political factor, with the Communists the chief beneficiaries.





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## Middle Eastern Reaction to President Truman's Statement on Palestine

The Middle East has been seriously disturbed by President Truman's statement on Palestine. Official protests have been made to several Legations; high government officials have made angry comments to US heads of missions; the press has been hostile; US cultural and economic interests have been threatened and retaliatory measures against them have apparently already been initiated, and additional security measures have been taken in some places to protect Legations and US property.

In Baghdad the Prime Minister broadcast and published a statement, which was sent officially to the US Legation, in which he strongly condemns President Truman's declaration and calls on all Arab States to condemn and oppose it. The Iraqi Prime Minister is also reported to have sent telegrams to the heads of all Arab States urging them to join in this condemnation and opposition. The Director of Civil Aviation informed the Legation that while prospects for an early conclusion of a bilateral air agreement previously had appeared hopeful, they were now "dashed" in the light of President Truman's statement. (On 5 October the Director had confided to the Legation that the Communications Minister desired to grant complete Fifth Freedom privileges to the US.) The Iraqi press has denounced the statement and in general has interpreted it as a "pre-election outburst." Some papers have suggested that the Palestine issue be presented to the Security Council while others have advocated strong measures against US economic and cultural interests in the Middle East.

Egyptian press comments in both the Arabic and English language journals have been unfavorable and have included statements to the effect that US political problems cause the President to make "foolish international moves."

In Palestine the Hebrew press has been unanimous in approving the statement, but some regret has been expressed that Jews should be the object of political maneuvering. Arab leaders, including members of the Arab Higher Executive, have spoken "violently" in opposition to the statement.





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In Syria, the statement has been widely condemned, and the local press has carried threatening and hostile comment which approached vilification. The Legation reports that although it has received assurances that US negotiations on oil and aviation matters will be treated separately from the question of Palestine, it has been informed by certain Syrians friendly to the US, that public pressure may soon force the Syrian Government to take measures to indicate its displeasure. The Legation has already noted signs of non-cooperation. The Press Department of the Ministry of Interior has released an announcement which asserts that the Syrian Government has read the statement with "great surprise" and "it resents deeply this persistent statement which aims at the extermination of the Arab people."

In Lebanon the Foreign Minister expressed to the US Charge the hope that the British Government would oppose President Truman and declared his belief that, if a Jewish Palestine state is formed with unlimited immigration, Transjordan and Iraq would be absorbed in five years and Syria and Lebanon would cease to exist in twenty. The Lebanese security police have increased security precautions on all US Legation properties, and local authorities in Tripoli have been alerted to the possibility of an attempt to blow up the US refinery there. The US Military Attache has been informed of threats of violence by Moslem terrorists against US property and especially against American citizens representing the US Government, institutions, and enterprises. The MA adds that local resentment resulting from previous statements by President Truman was directed against the President personally, but in this instance it is also directed against US nationals and interest generally.





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# SPECIAL ARTICLES

1. Economic Pressure on Franco
2. Soviet and Chinese Interests in Sinkiang



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# ECONOMIC PRESSURE ON FRANCO

Spanish economic difficulties are now critical. To avoid potential unrest as the result of continued food shortages, the Spanish Government may be compelled to seek aggressively foreign economic support, no matter where obtainable or how little palatable politically to General Franco.

Spain's exceptionally low productivity in 1945--following a three-year drought which drastically curtailed harvests and reduced electric power, thereby limiting both mining and manufacturing operations--has not been followed by the degree of economic upturn that might have been expected to result from an improved crop situation. Although 1946 crops were a vast improvement over those in 1945, reports from Spain emphasize current food shortages, continued high prices despite a new campaign against the black market, and the weakness of Spain's foreign exchange position. A recent drought has even brought back curbs on the consumption of electricity.

This unfavorable economic situation has two-fold political significance. First, Franco cannot safely relax the repressive measures with which he now controls domestic opposition. He is unlikely to risk liberalization of the regime, a goal of both US and British policy toward Spain, so long as economic hardship aggravates the temper of the people. Indeed, the Spanish Foreign Minister recently asserted that a referendum on the regime, contemplated for this fall, will not be held until next spring. Franco appears to be convinced that the United Nations will take no direct action against him and that his forces are strong enough to hold internal opposition in check. Secondly, the Spanish Government may be goaded by economic necessity. At present Spain is unfavorably equipped to supplement its straightened resources through normal international trade. Several traditional exports such as oranges and olive oil are in short supply. For example, Spain has been unable to meet commitments to ship oranges to Great Britain as the result of a freeze early in 1946. The last olive crop was too small to meet even current domestic requirements. US importers have not received promised shipments of Spanish olive oil. In contrast to 1945, exports of iron and pyrites to England this year have increased considerably, but new electricity restrictions may again limit supply. Spain's prospects for accumulating foreign exchange through exports thus are not presently favorable.





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Spain must therefore improve its capacity to buy abroad. Beside the need to supplement depleted supplies of machinery, rolling stock, fertilizers, and other commodities essential to economic betterment, Spain cannot, on a day-to-day basis, do without certain other commodities only to be procured by importation. Were petroleum to be cut off, the most serious consequences would ensue because even at present transport is incapable of distributing foodstuffs. Cotton must also be imported because Spain raises only a fraction of the total needed by the Catalan textile industry, one of its few major industries.

The Franco Government has been excluded from the International Bank and Fund. US policy opposes any Government loan to Franco, and forbids the sale of US surplus property to Spain. To acquire dollar credits, the Spanish Government recently offered to sell the US Treasury gold to the value of five million dollars. Purchase may be authorized only if certain severe conditions, including proof that the gold had no connection with Germany, are met by the Spanish Government. Private US business, however, has shown less inclination to ignore Franco. The Chase National Bank has been contemplating an advance of ten million dollars to the Spanish Exchange Institute. Several large American corporations have accepted Spanish orders on a long-term credit basis.

The Spanish Government has been seeking other commercial support abroad. Argentina loaned 30 million pesos in May to finance cereal purchases. On 25 September a Spanish economic mission arrived in Buenos Aires to discuss means for overcoming an unfavorable trade balance with Argentina, now about one hundred million Argentina pesos. The prevalence of highly improbable rumors that Spain might even conclude an economic agreement with the USSR reflects the precariousness of the present Spanish economic position.





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## SOVIET AND CHINESE INTERESTS IN SINKIANG

A high Chinese official has informed Ambassador Stuart that the Soviet Consul General in Tihwa has requested the Chinese Provincial Governor of Sinkiang on "the basis of realities" to grant the Soviet Union concessions to all mineral and petroleum rights in the province. In making such a request the Soviet Union is probably motivated by international political considerations and long-range strategic interests rather than by immediate economic advantages. The possibility of uranium deposits in Sinkiang has been suggested by Chinese officials to US officials, but in the absence of facts it may be suspected that such hints were made to arouse US interest. The Chinese Government clearly looks to the US for support in keeping Sinkiang and its resources for China. The fact that the report to Ambassador Stuart included the statement that the Generalissimo is "wavering towards appeasement" suggests that the Chinese Government may also be testing official US attitude toward support of China against the USSR.

Soviet interest in Sinkiang is primarily political and strategic. It is a border region where the interests of China, Great Britain and the Soviet Union meet. More than twice as large as Texas, it has a population of about $3\frac{1}{2}$ million persons, most of whom have strong cultural ties with nations in the Soviet sphere, and less than ten percent are Chinese. Constant unrest among the non-Chinese population groups tends to unsettle conditions in neighboring Soviet republics. Although the province has great economic resources (gold, coal, oil, salt, copper, and iron) as well as uncertain quantities of lead, magnesium, and zinc, their extraction would require long and difficult development and an investment which would be uneconomical to the USSR in view of the abundance of similar undeveloped resources within the present Soviet boundaries.

Soviet strategic interest in Sinkiang was demonstrated during 1933-42 when, as a counter to Japanese expansion, the Soviet Union asserted strong but indirect political control by its support of and economic assistance to the Chinese governor, Sheng Shih-ts'ai. In 1942-43, when Soviet strength was at its lowest ebb, Sheng reoriented himself toward Chungking. The USSR subsequently withdrew from Sinkiang, removed oil refineries, transportation equipment, technicians





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and troops, dissolved its trade monopoly, and closed its borders to the trade which is vital to the economy of the native population.

With its resurgence as a great power, the Soviet Union is expected to attempt again to extend its influence over Sinkiang. The reported request for concessions may be a first move in that direction. The request may also have the diversionary purpose of creating another zone of tension for Great Britain and the US, and of affording the USSR another means of pressure against China in negotiations regarding Manchuria.

Chinese interest in Sinkiang, like that of the USSR, is also primarily political. Should Sinkiang break away from Chinese control, China might also lose control over the powerful Chinese Muslims in the neighboring provinces of Kansu, Ninghsia, and Tsinghai, and would find it most difficult to continue its shadowy authority over Inner Mongolia. The Chinese have, however, a very strong historical and sentimental interest in the remote province, and intend eventually to develop its resources and integrate them into the Chinese economy.

Chinese authority over Sinkiang is precarious. Communications in a modern sense are very limited. The native population is hostile and several serious revolts during the past two decades have almost succeeded in driving out the Chinese ruling minority. These revolts were fundamentally indigenous, though the USSR appears to have given some limited assistance in two recent disturbances (in 1933 its aid was decisive in favor of the Chinese Governor). The most recent revolt was settled in June by an agreement which promised the non-Chinese majority considerable participation in provincial and local government, quasi-independence for native troops, and cultural autonomy. The new Governor, Chang Chih-chung, to whom the Soviet Consul General is reported to have made his request, is an important figure in the Central Government and is far more competent than any Chinese ruler of Sinkiang in the past several decades.

The "realities" of the situation in Sinkiang deeply concern the Chinese Government. The geographic and economic orientation of the province toward the Soviet Union, the cultural ties of its predominant population groups, and the realities of impinging Russian and Chinese power make the province vulnerable to "autonomy" of the Azerbaijan pattern.





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# WEEKLY SUMMARY

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## Soviet Forces in Bulgaria

Available evidence indicates an increase of Soviet strength in Bulgaria from 80,000 to not less than 120,000. Although this increase can not be supported by current identification of units, it is believed justified in the light of recent field estimates and continuing evidence of the arrival of Soviet troops from the north by road and rail. While the Soviet forces are estimated to constitute 9 divisions, comprising four corps, and to be concentrated chiefly in the southern and southeastern part of the country, only one corps (the Fourth Mechanized) is definitely identified and located. About half of the increase is believed to have come from the USSR, the other half from Rumania. There is, however, no evidence that the increase has been accompanied by a major logistical build-up. It should be noted also that last year 160,000 Soviet troops wintered in Bulgaria, and an equal number may locate there this season. This, plus the current maneuvers and the nerve warfare against Turkey, are still believed to explain recent developments.

## Soviet Policy and Propaganda Since Stalin's Interview

A review of official Soviet statements and actions since 24 September tends to confirm the earlier estimates that Stalin's reply to Alexander Werth did not indicate a fundamental change in Soviet policy but represents an effort (a) to strengthen foreign advocates, especially in the US, of a "soft" policy toward the USSR, (b) to invite closer relations with Britain, thus dividing British opinion and hindering the further development of Anglo-American solidarity, and (c) to boost the morale of the war-weary and bewildered Soviet people.

In the field of foreign policy there is no indication of a general change in Soviet aims. Soviet delegates at Paris and Lake Success have remained characteristically adamant; their war of nerves in the Middle East continues, and Communist activity in satellite and other areas goes on as usual. It is likely, however, that Stalin's words of good will may be followed by a few generous gestures and minor concessions, as suggested by the agreement to permit a four-power check of German disarmament and demilitarization.



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In their propaganda directed toward the "Anglo-American bloc," the Soviet publicists have adopted a slightly more conciliatory tone toward the UK and have continued to attack the US with undiminished bitterness. A Moscow commentator, speaking in English on 26 September, is quoted as saying that "friendly political, trade and cultural relations should bring the peoples of the USSR and Great Britain closer together," and that "the Soviet people have always had a friendly feeling for the British people."

On the other hand, on 28 September PRAVDA described the "stay of US Armed Forces in China without any legal foundation" as an "outrageous violation of the sovereign rights of the Chinese people." Wallace's resignation has been interpreted as a "purge" of one of the only true disciples of Roosevelt remaining in the US Government, and an example of the "enormous influence being exerted on US policy by the united front of reaction."

The possibility of a division between the US and UK also is being played up in an effort to quiet the jittery nerves of the Soviet people, who for many months have been warned of the ominous perils lurking over the western horizon. This alarmist line appears not to have produced the desired result, and its authors may have decided to offer hope in place of fear as an incentive for increased mass effort. An authoritative political lecturer in Moscow's Polytechnic Museum recently assured his audience that friction within the "Anglo-American bloc" was certain to develop. Already, he said, "popular voices in England were protesting against the policies of British ruling circles" which were making England merely a "forty-ninth state," while US leaders were faced with a great popular demand for a return to Soviet-American collaboration.

## Renewed Yugoslav Attacks on the US

The period of comparative calm in US-Yugoslav relations following the plane incidents has been shattered in recent weeks by a new series of bitter and aggressive Yugoslav attacks against the US. Although the anti-US campaign is probably intended primarily as a means of strengthening the admittedly weak internal position of the Tito regime, the Yugoslav Government may also be laying the groundwork for eventual military action against Venezia Giulia or Greece.





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In an apparent effort to discredit the Western Powers, on which the Yugoslav opposition relies for eventual release from the present regime, Tito has charged US Embassy employees with conspiring to overthrow the Yugoslav Government and has closed the USIS reading room in Belgrade. He has also intensified his attacks on the Catholic Church and has openly violated the Yugoslav-UNRRA agreement by continuing to misuse UNRRA supplies and to arrest, without satisfactory explanation, UNRRA employees (including US citizens).

The Yugoslav Government's flagrant violation of the UNRRA agreement indicates both a readiness to do without Western assistance and a conviction that the isolation of the Yugoslav people from Western contacts is more important than any economic assistance which the Western Powers can provide. Although the Tito regime may not intend to precipitate aggressive military action in the near future, it is obviously running the risk, by its continuous fanning of nationalist passions, of provoking border incidents of such seriousness that armed action becomes inevitable. In the meantime, Yugoslav troops concentrated along the Greek and Venezia Giulia border play an important part in the Soviet war of nerves.

## Philippine Nationalism Impedes US Base Agreement

US and Philippine negotiators have clarified most of the proposed terms of a US base agreement with the Philippines, but strong nationalistic sentiment now threatens to block early ratification by the Philippine Senate. This resurgent national feeling, which President Roxas has denounced as a sign of "super-nationalism," already has nearly blocked passage of a resolution calling for a plebiscite to be held in March 1947 to provide equal rights for US nationals by constitutional amendment.

Although base negotiations between US and Philippine representatives had reached an advanced stage by early September, Roxas has twice postponed submission of the base agreement to the Senate. His reasons apparently were his concern over anti-foreign sentiment in the Philippines, and the necessity of devoting all his efforts to obtain Congressional approval of a resolution calling for the equal rights plebiscite as required by the US-Philippine executive agreement implementing the Philippine Trade Act





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of 1946. Heated Congressional debate over this resolution led Roxas on 28 September to denounce publicly the trend toward "super-nationalism" and to assert that, while foreign capital was urgently needed to further Philippine rehabilitation, there was no reason to fear "sovereign encroachment by a foreign State or by business interests." The Philippine Congress finally passed the plebiscite resolution on 30 September by a margin of one vote. Roxas has since been attempting to muster all possible votes in anticipation of submitting the base agreement for Senate ratification, and is reported to believe that "the fight on this agreement will be sharper than on the equal rights amendment."

Base agreement discussions between Roxas and McNutt, suspended during Roxas' campaign for the equal rights issue, were scheduled to be resumed in the first week of October. McNutt has indicated that some compromise may be necessary to overcome Philippine negotiators' objections to large US military installations near populations centers, particularly Manila, and to US jurisdiction over temporary installations within urban areas. In such discussions, Roxas' attitude undoubtedly will be influenced by the vigorous opposition recently displayed in Congress. He may even decide to defer submitting the agreement for ratification until he has further advanced his public campaign against Philippine "super-nationalism." In this campaign, Roxas will probably develop an argument prepared for his 28 September "super-nationalism" address, but omitted in delivery: that American military bases would lower the cost of the Philippines' own national defenses to less than one-tenth of the budget, and would allow the Philippines to devote the greater part of their "substance" to the pursuits of peace.

## The Unity Movement in South Korea

The unity movement in South Korea, which broke down through Communist non-cooperation in late July, now has been revived. Measures recently taken by General Hodge against the Communists have freed the parties of the left from the threat of minority control. The prospects are consequently good that a strong coalition of moderates and independent leftists will be formed to support US policy in Korea. The Communist opposition itself appears to have gone underground.





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Since the beginning of the US occupation, several abortive attempts have been made to join the right and the left. The unity movement, however, did not receive official impetus until the US interim policy for Korea was set forth after the adjournment of the Joint US-Soviet Committee. This policy calls for the establishment of an Advisory Legislative Body in South Korea and for increased Korean participation in the administration of the US Zone. Since the success of the US program depended upon cooperation among the Korean parties, General Hodge early in July sponsored unity conferences among the representatives of the two principal political groups in Korea: the rightist Democratic Council and the leftist People's Front. Considerable progress had been made in these negotiations, when Pak Heun Yung, leader of the South Korean Communist Party, returned from the Soviet Zone at the end of July. Shortly after Pak's return, a list of uncompromising conditions for unification was published in the name of the People's Front. These terms were unacceptable to the other parties, and the unity movement was suspended.

A struggle ensued within the People's Front between the Communists under Pak and the independent leftists led by Lyuh Woon Hyung. During August the Communists had the upper hand. Lyuh's own party voted to merge with the Communists in a new South Korean Labor Party, patterned after the organization in the Soviet Zone. Thereupon Lyuh resigned from his party and retired temporarily from politics. Conflict, however, continued until even the Communist Party was split. A nationalist faction appeared among the Communists which rejected Pak's leadership and accused him of bringing the class struggle into the Korean national family.

Ever since the rupture of the unity negotiations, Military Government had been gathering evidence of Communist subversive activities. At the beginning of September, warrants were issued for the arrest of Pak and other Communist leaders. Three newspapers accused of inciting unrest among the Korean people were closed by the police. As a result Pak fled, presumably to the Soviet Zone, and Communist agitation suddenly subsided. Lyuh Woon Hyung came out of retirement and on 16 September resumed the chairmanship of the People's Party and declared his opposition to Communist interference. The leader of the Democratic Council had already proposed a resumption of the unity negotiations. A new unification committee met immediately to which General Hodge gave public support.



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In the meanwhile, another important step had been taken toward the fulfillment of the US interim policy in Korea. On 12 September General Lerch invited the Korean officials in the Military Government to take over the "front offices" and act as the heads of the departments in the administration. Plans now are being made to hold elections to an Advisory Legislative Body within the next two months. This provision of the US interim policy in Korea, which hitherto has been received with widespread popular indifference and hostility, may now receive wider support as the unity movement spurs public interest in self-government.





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# SPECIAL ARTICLES

1. Increased Autonomy for Burma
2. Brazil in South America's Economic Crisis



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# INCREASED AUTONOMY FOR BURMA

The appointment of a new Executive Council for Burma on 26 September represents a political victory for the Burmese Nationalists and a modification in British policy as set forth in the White Paper on Burma. Burmese political leaders have now been given responsibilities for maintaining internal order and improving domestic economic conditions similar to the autonomous powers which Britain has accorded Nehru's Government in India. Burmese nationalists, who have thus attained a part of their goal of complete independence, now must demonstrate their capacities for self-government.

The origins of the present Burmese political situation lie in the period immediately before the Anglo-Burmese Round Table Conference of 1931 when British authorities pledged that Burma's eventual separation from India would not adversely affect its political advancement. The Burmese interpreted this statement as indicating that Britain intended to permit the Burmese to move toward self-government and independence at the same rate as India. Since the separation of Burma from India in 1937, Burmese political groups have insisted upon this interpretation and have resented the continuance of strong British control. Although the period of 1937-41 was marked by disagreements between Ba Maw's Freedom Bloc, which demanded complete independence, and the Myochit Party of U Saw, which favored Dominion status, both groups were agreed that the Burmese people should have greater autonomy.

When the Japanese occupied Burma in 1942, a modicum of native political activity was permitted under the leadership of Dr. Ba Maw, whose political coalition became the sole legal party in the nominally independent Burmese totalitarian state. By 1943, an underground movement was organized, largely under Communist leadership, in opposition to the Japanese occupation. The various factions of this underground in 1944 formed the Anti-Fascist Peoples Freedom League. This movement was greatly strengthened with the adherence of Aung San's Burma National Army, which Aung San had organized in Japan in 1940 and which had fought with the Japanese against the British in 1942. When British forces recaptured Mandalay in March 1945, the League and the Burma National Army openly went over to the British and assisted Allied forces by waging guerrilla warfare against the Japanese.





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The Anti-Fascist Peoples Freedom League emerged from the war as the strongest political grouping in Burma. The League actually is a coalition of Communist, Socialist and several smaller political groups. Because of its Communist leadership during the war years and the early post-occupation period, the League was regarded by the British as a Communist group, even though it included certain independent Burmese political leaders.

After the return of the British to Burma late in May 1945, the League cooperated temporarily with British officials, but expressed dissatisfaction with the slow evolution of independence provided in the British White Paper on Burma. This cooperation ended when Governor Dorman-Smith refused to recognize the League's claim to represent all of Burma and rejected the League's nominations for eleven of the 15 seats in the Executive Council. Thereafter, the League campaigned in numerous mass meetings for a National Government and elections for a Constituent Assembly, and strongly opposed the re-establishment by the British of the pre-war form of government.

During the spring and summer of 1946, the League succeeded in eliminating its Communist control and placing leadership in the hands of the Socialist and independent factions.

The police strike in Rangoon and the general strike of government workers in September forced the resignation of the Executive Council. The British were then faced with the choice of making concessions to the League or facing a period of widespread popular violence. On 26 September, Rance, the new Governor, announced the formation of a new Executive Council in which the League controls 6 out of 11 seats, and at Aung San's insistence, only one of these is held by the Communists. The remaining 5 seats are held, or will be held, by non-League parties. It is indicative of the dimensions of the League's political victory that only one place each is so far allotted to the once-powerful Myochit Party and to the remnants of Dr. Ba Maw's group.

Appointment of the new Executive Council is a clear-cut victory for Burmese nationalism. The League has secured political power for the Burmese comparable to that held by the interim government in India under Nehru. The Executive Council will function as a Council of Ministers, enjoying the same powers as were held by ministers under





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the Constitution of 1935. Moreover, the Council will concern itself with problems of defense and external affairs and will be informed of British policy in the frontier areas, matters which were formerly reserved for consideration by the Governor alone.

As a result of its dominant position in the new Council, the League must now assume direct responsibility for solving Burma's most pressing domestic problems. Hitherto the League has been in the position of criticizing a British-controlled Government for failure to deal efficiently with economic dislocation, the high cost of living, and the depredations of lawless bands. Now the League itself must deal with these difficulties. The strikes presumably will end at once, as a result of the British political concessions. The League has yet to face the other and more basic problems.





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## BRAZIL IN SOUTH AMERICA'S ECONOMIC CRISIS

Two South American countries -- Argentina and Brazil -- have recently emerged from a long period of dictatorship to become constitutional democracies. In two others -- Venezuela and Bolivia -- popular uprisings have in recent months turned out of office governments dominated by the military. In all four, the months ahead will be a testing-time during which ultimate responsibility for what happens will -- correctly or incorrectly -- be laid at the door of popular self-government. In all four, popular self-government has taken over in a period of unparalleled economic crisis; the outcome may therefore be failure and further political upsets.

Although their incidence varies from country to country, these crisis conditions are now characteristic of all South America. The continent as a whole faces two major economic problems for which, despite their clear implications regarding political stability in and among the ten countries involved, no promising solution has yet been proposed. These are an increasingly uncontrolled monetary inflation and an inadequate, unevenly distributed food supply (Argentina alone among the countries of South America is able to feed itself).

These two problems are closely related in their impact upon political stability. Because the inflation cuts deeper into the consumption of the poor than into that of the wealthy, the inequities of the distribution of the Continent's inadequate food supply become constantly greater, and popular restiveness constantly more widespread. Because of the inadequate food supply, wages must move constantly upward to correct the increasingly inequitable division of food among economic classes; and the higher wages inevitably mean higher costs, further inflationary rise in prices, and still further restiveness. Even Argentina, with food resources adequate to its needs, has an internal food-distribution problem and is subjected to continuous and disturbing pressure from its neighbors to share its plenty.

The recent food riots in Rio de Janeiro, followed by Ambassador Messersmith's strong recommendation that the US meet Brazil's pressing immediate wheat requirements, direct attention to that country as the one in which the forces creating economic distress in South America





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can be observed in their clearest and most crucial form, and the one in which these forces are most likely to produce a political upset within the predictable future.

Brazil's economic difficulties may be attributed to a number of factors. Nothing short of a revolution in agricultural technique, a revolution furthermore which would call for generous contributions of equipment and know-how from a major economic power, could enable Brazil to feed itself. At present, even mass-consumed staples are in desperately short supply.

Brazil depends, not only for food but also for a large part of its supply of manufactured consumer goods, upon a regular flow of imports far beyond its maximum expectations for the near future.

The very prosperity of Brazil's export industry, which has enabled it to accumulate 737 million dollars of foreign exchange since 1939, is in large part responsible for the inflation that is undermining its economy. (A prospering export trade, at a time when imports and domestic production are inadequate to take up the slack, is inflationary because the wages and other income payments arising from production for export bid up prices.)

The Brazilian Government, instead of following the restrictionist policies indicated by its favorable trade balance, has contributed to the inflation by permitting its banking system to expand the supply of credit and by increasing the supply of currency. (Currency in circulation rose from 5 billion cruzeros in 1940 to an all-time high of 14 billion at the end of 1945.)

The Brazilian Government has, increasingly since 1944, shown itself too weak and indecisive to adopt and enforce adequate price-control measures. (The Brazilian cost-of-living index rose 14.7% in 1944, 22.3% in 1945, 12.3% in the first six months of 1946. One item, rents, is up 300% since 1939.) The measures adopted against hoarding and excess-profits are also inadequate.





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Instead of mopping up surplus purchasing-power through a courageous policy of taxation and budget-slashing, the Brazilian Government has hastened the inflation by deficit-spending.

Brazil's most urgent requirements -- grain, machinery (especially for its crippled transportation system), fuels, lubricants, metals, manufactured goods -- are those for which it depends mainly on the US, and precisely those which the US is least able to supply.





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## Soviet Military Activity in the Balkans

Recent reports of Soviet military activity in Bulgaria have indicated substantial concentration of troops and heavy equipment in the southern part of the country, the influx of units from Rumania and the establishment of a 25-kilometer "security zone" along the Greek frontier. This considerable activity, however, does not appear to indicate an early military offensive.

There appears to have been a definite increase in Soviet overall strength in Bulgaria, but the exact extent is still uncertain and many of the currently reported figures seem exaggerated. The Soviets for some time had planned extensive maneuvers in this area at this season. Such maneuvers are now in progress not only in Bulgaria but in Western Hungary, the former Polish territory recently annexed by White Russia, and deep in the Soviet Union. In view of the current Soviet program of mechanization, it is entirely logical that substantial quantities of new weapons should be arriving in order to equip the participating units along modern lines. The choice of southern Bulgaria for one of the maneuver areas serves the dual purpose of providing rugged terrain for mountain training and of promoting nerve warfare against Greece and Turkey. Moreover, Soviet occupation troops are now preparing for winter quarters, a process which entails rearranging of units, shifting to new locations and laying up stores and supplies. Because of its favorable food situation, southern Bulgaria is well suited for this purpose.

While there thus appears to be no reason to believe that a major Soviet military offensive is planned, the possibility remains that overzealous local Communists in Albania, Yugoslavia and Bulgaria might precipitate action which would force Soviet intervention.

## Soviet Purge Spreads to Collective Farms

Publication on 20 September of an edict signed jointly by J. V. Stalin, chairman and A. A. Zhdanov, vice chairman of the Council of Ministers, revealed a nation-wide purge of Soviet collective farm administrative officials. The official announcement stated that the action was aimed at the correction of irregularities described as "extremely





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dangerous to the whole socialist regime" and "harmful and alien to Leninism." The edict directed Communist Party leaders and Soviet officials "to bring about urgent liquidation of violators "as criminal offenders."

Included among the abuses named in the lengthy decree were: (a) misappropriation of collective farm lands for purposes of private gain; (b) pilfering of collective farm property, including livestock, grain, seed, fodder, meat, milk, butter, honey, vegetables, and fruit; (c) failure to pay farm workers their legal wages; (d) incorrect utilization of working days; (e) improper personnel policies, with the result that many collective farms had an oversupply of white-collar workers and a shortage of field workers; (f) appointment, rather than election at a general meeting, of officials, thereby depriving farmers of their right to vote.

In addition to removal from posts and trial of guilty persons, corrective measures will include inspection of all collective farms within two months, return of all stolen property before 15 November, and establishment of a Council for Kolkhoz (collective farm) affairs.

The action on collective farms is the latest in a series of post-war measures initiated this last summer by Soviet leaders in order to tighten internal discipline, particularly in economic enterprises, and to reinforce the political efficiency of Party and propaganda organizations. On 26 June, the Ministry of State Control announced that more than 20 factory, mill, and mine executives had been punished for misappropriating or misusing funds. In August, there was a mass replacement of party officials in the Ukraine. Also in August, the Communist Party attacked certain Soviet writers for frivolity, vulgarity, and failure to promote the ideological work of the Party. In Leningrad, two writers, a poetess and a humorist, were expelled from the Union of Soviet Writers. Zhdanov, secretary of the Leningrad party organization, subsequently lectured Leningrad writers on their duties. In September, the Union of Soviet Writers was reorganized, and a general directive was issued enjoining Soviet literati to refrain from "apolitical" work and warning them against susceptibility to "western" and hence anti-Soviet ideas.





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These measures apparently do not indicate a purge of the proportions of that which occurred in 1936-38. They do appear to indicate, however, that the general relaxation of Party controls and supervision during the prosecution of the war resulted in growing ideological and economic disorganization which, for the moment at least, has affected adversely Soviet military and economic strength. It would seem likely, therefore, that the Soviet Government would endeavor to avoid a major military adventure until Party control and discipline have been restored.

US Presses USSR for Action on Japanese Reparations

All the powers represented on the Far Eastern Commission except for the USSR have agreed that the Commission should convene a conference to conclude a reparations settlement for Japan. The USSR has refused to express its attitude toward such a conference until the US agrees to exclude from the settlement the consideration of "war booty," including industrial equipment seized by the USSR in Manchuria. The US has told the USSR that it will, if necessary, call a reparations conference outside the framework of the FEC.

On 25 July the US proposed that the FEC call a Japanese reparations conference on 15 August, to sit in continuous session until it reached final conclusions to be presented to the FEC for ratification. The US held that a reparations settlement was urgently needed in order to expedite reestablishment of the Japanese economy and to provide reparations equipment for the rehabilitation of war-ravaged countries. By 13 August all countries represented on the FEC except the USSR had approved the US proposal at least in principle; but because of the absence of a Soviet decision, the FEC has not yet acted on the proposal. The USSR has withheld a statement of its position pending agreement, in bilateral negotiations with the US, on a "basis for discussion" for the conference.

The major issue in US-Soviet negotiations, which have been in progress since early 1946, is the treatment of Japanese external assets, particularly of "war booty," in the settlement of reparations. On 25 June the US attempted to expedite reparations negotiations with the USSR by proposing a formula that eliminated the distinction between





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"war booty" and other external assets, and that called for retention by countries at war with Japan of all Japanese external assets under their control or removed to their territories before 1 June, providing that such assets were taken into account in the over-all reparations settlement.

The State Department received no comment from the USSR on the US formula until 6 September, when Admiral Ramishvili, Soviet representative on the FEC, stated that the USSR would approve the convening of a Japanese reparations conference if the US agreed to a basis for conference discussion which would (a) eliminate from reparations accounting both "war booty" (which includes, by Soviet definition, industrial equipment already removed from Manchuria) and former Japanese assets in South Sakhalin and the Kuriles; and (b) determine reparations shares for claimant countries "on a broad political basis."

On 26 September the State Department replied that it agreed that reparations should be distributed on a broad political basis, and that the exemption of South Sakhalin and Kuriles assets was a topic that admitted of "advantageous exploratory discussion." However, the Department could not agree, in view of the US formula proposed on 25 June, to the exclusion of "war booty" from reparations accounting.

The Department further expressed its intention to press for early FEC action on the US reparations conference proposal, and indicated that, if the FEC was unable to call a conference within a reasonable time, the US, as the principal occupying power, would call a reparations conference "outside the framework of the FEC" and "with the cooperation of whatever other governments now represented on the FEC wish to join her." Finally, the Department asked that official Soviet response to the US position be given within two weeks.

The US representations of 26 September have forced the issue on the principal obstacle now blocking a reparations settlement, and leave the USSR with substantially three alternatives: to compromise on the "war booty" question, to witness the formation of a reparations conference without Soviet participation, or to approve the calling of an FEC-sponsored conference while reserving judgment on "war booty." The USSR appears most likely to choose the last alternative, which would





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enable it to take further action on "war booty" within conference discussions.

Prospects for Communist Victory in Bulgarian Elections

The Communist Party, as a culmination of its intensive campaign of violence and intimidation against the Opposition, now believes that it can win sufficient votes in the 27 October elections, not only to exclude the Opposition from representation in the new Government, but also largely to eliminate from the Government the other four parties now represented in the Fatherland Front.

The four non-Communist parties in the Fatherland Front have been so weakened by Communist intimidation that their popular vote is expected to be insignificant compared with that of the Communist Party. Thus the Communist-inspired liberalization of the electoral law, which will permit each Fatherland Front party to receive representation in the Government proportionate to its popular vote, is actually designed to provide legal justification for eliminating the other four parties from the Government, or at least relegating them to a minor role.

The three major Opposition parties, on the other hand, concede that as a result of intimidation the Fatherland Front will win a 60 percent majority even without falsification of the ballots. While they have recently agreed to present a common electoral list, there is still a strong possibility that they will boycott the elections on the basis that abstention would enable them better to focus world opinion on the dictatorial nature of the Bulgarian regime than a subsequent attempt to prove that their defeat was the result of Communist pre-electoral intimidation and violence.

The Opposition, fearing that a Communist Government would request Soviet troops to remain in the country even after the peace treaty, as a last resort has made another attempt to obtain US and UK intervention, either to postpone the elections until after the withdrawal of Soviet troops or to establish an international commission to observe pre-electoral conditions. It is improbable, however, that the USSR would agree to these requests, since the Bulgarian Communists would hardly have defied world opinion and the Yalta agreement without prior Soviet approval.





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# SPECIAL ARTICLES

1. The Far Eastern Commission and the Japanese Constitution

2. The Anglo-Argentine Trade Agreement



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# THE FAR EASTERN COMMISSION AND THE JAPANESE CONSTITUTION

It appears probable that the revised constitution for Japan will be adopted in the near future, despite extensive disagreement in the Far Eastern Commission and the persistent opposition of the Soviet delegate. The long debate on the constitution has served to clarify the relative positions of SCAP and the FEC in the system of Allied control.

The draft constitution, which was proposed on 7 March by Premier Shidehara, was adopted with amendments by the House of Representatives on 24 August and probably will be passed by the House of Peers during the current Diet session, which is scheduled to end on 4 October. Approval by the Emperor and the Privy Council now is considered merely a formality, and the new organic law of Japan presumably will be promulgated in the near future. In accordance with its own provisions, the constitution will come into effect six months after promulgation. In the meantime, the constitutional sub-committee of the House of Representatives is planning an intensive educational campaign to gain popular understanding and support for the new instrument.

The FEC, which has been debating the question of Japanese constitutional reform concurrently with the Diet, has not yet reached a decision. Although the Shidehara draft came before the Commission last March, more than three months before its submission to the Diet, the Commission has been unable to take a definite stand because of fundamental differences among the delegates over procedure. Broadly speaking, one group led by the US believes that the Japanese people should be allowed to make a partial reform on their own initiative, while the USSR contends that a thorough reform should be imposed upon Japan from outside. All the powers in the FEC subscribe to the same basic purpose for the occupation of Japan, defined by the Potsdam Declaration as the establishment, "in accordance with the freely expressed will of the Japanese people," of "a peacefully inclined and responsible Government." All FEC members agree in interpreting this to prescribe a "democratic" reform of the Japanese government. There is thus among the members general agreement as to ends but wide divergence as to the means of attaining them.





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The situation has been complicated by SCAP's approval of the Shidehara draft when it was published, and by reports which have since leaked out that the document was drawn up principally at Supreme Headquarters in Tokyo. Irrespective of the accuracy of these assertions, the FEC has in fact been confronted with a fait accompli. Approval by the FEC of the Shidehara draft would seem to be merely an echo of SCAP's independent decision. On the other hand, rejection of the draft would seriously embarrass the occupation authorities and confuse the Japanese people, who had thought that the Supreme Commander was acting for the Allied Powers.

The FEC subsequently issued two policy decisions concerning the constitution. The first of these, adopted on 13 May, set forth, as principles to govern constitutional reform, the three criteria of mature deliberation, legal continuity and popular ratification. These were communicated to the Japanese people by SCAP on the occasion of the opening of the new Diet on 21 June. In a second policy decision approved by the FEC on 2 July and forwarded to SCAP, the Commission demanded specific alterations in the Shidehara draft and also suggested the removal of the Emperor. SCAP protested against the publication of this directive as likely to arouse the Japanese people against the occupation and to retard the progress of democracy in Japan. The FEC agreed to a postponement of publication but insisted on eventual compliance with its demands.

By confidential negotiations with Japanese political leaders, SCAP obtained the required amendments to the Shidehara draft, and the constitution, as passed by the House of Representatives on 24 August, conforms substantially to the FEC directive of 2 July except for the suggestion that the Emperor be removed. The US member and chairman of the FEC consequently proposed approval of the constitution at the Commission meeting of 12 September. On this date and at the next meeting of 19 September, all the members of the Commission, with the exception of the Soviet delegate, indicated that their Governments would offer no further objections to the constitution in its present form, although the Australian and New Zealand delegates sought to condition approval of the constitution on subsequent review by the Japanese Diet and the FEC. The unyielding opposition of the Soviet delegate makes it unlikely, however, that the FEC will approve the new organic law prior to its enactment. The failure of the FEC to act will necessitate a reappraisal of its function in





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the system of Allied control in Japan.

The US already has determined upon the stand it will take in case the FEC does not ratify the revised constitution. According to that stand the FEC has the right to review fundamental political reforms, but its prior approval is not a requisite for their validity. Consequently the Japanese people may not adopt a constitution disapproved by the FEC but may adopt one on which the FEC has failed to act.

If the US interpretations of the FEC's powers prevail, as appears probable, the controversy over the Japanese constitution will be settled and the FEC,s responsibility in the occupation program reduced. The Shidehara draft has been amended sufficiently to satisfy a large majority of the Commission, but in such a way as to save face for SCAP and the Japanese Government.



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## THE ANGLO-ARGENTINE TRADE AGREEMENT

The Anglo-Argentine trade agreement signed in Buenos Aires on 17 September represents an eleventh-hour compromise between the British Mission, headed by Sir Wilfred Eady, and determined Argentine representatives who sought to capitalize on Britain's desperate need for Argentine beef. The agreement permits Britain to remain the principal purchaser of Argentine meat, provides for a new trade treaty to replace the Roca-Runciman Trade Treaty (which expired on 20 August), and in effect reinstates the Runciman treaty, except for its meat clause, until 1 January 1947.

Argentina originally demanded (a) meat prices equivalent to those paid for beef exported from the US, (b) reduced meat shipments to Great Britain (so that Argentina could cultivate other markets), and (c) unfreezing of its blocked sterling funds in London. Britain, however, desired that Argentina apply these funds to the purchase of Britain's extensive railway investments in Argentina, which have in recent years been threatened with expropriation.

The British, from whom Peron had received some support during the war, expressed disappointment when the Argentine negotiators showed determination to drive the hardest possible bargain. Sir Percivale Liesching, head of the original British Mission, asserted privately that Argentine officials were blocking a mutually satisfactory agreement by their reluctance to negotiate on a broad, comprehensive, international basis, and their complacent belief in the permanence of the country's prosperity and favorable food situation.

Two other factors, however, strengthened Britain's hand: the fact that most of the refrigerator ships that carry Argentine meat are British-controlled, and the widespread official recognition that Argentine public opinion would react unfavorably to a breakdown of the negotiations.

Under the compromise reached on the eve of the British Mission's departure, Britain will buy, at slightly increased prices, most of Argentina's exportable meat surplus for the next four years. Britain, in turn,





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will unfreeze at intervals a small portion of Argentina's sterling balance and will pay a low rate of interest on the blocked balance. The remaining blocked funds will be available to offset Argentine balance-of-payments deficits within the sterling area. This special arrangement with regard to Argentine trade with the sterling area might conflict with the stipulations of the Anglo-American Financial Agreement.

The Anglo-Argentine trade agreement also provides for the formation, with Argentine and British funds, of a company which will buy the British-owned railroads. The roads will be operated, with British assistance, under the control of the Argentine Government which will spend large sums on their development over the next five years.

The agreement assures Britain that its meat requirements will be met at prices it can afford to pay, and clears the way for a future expansion of Anglo-Argentine trade under a new treaty. Argentina receives higher prices for its meat and obtains liquid funds with which to finance increased imports. The railroad agreement, which requires further implementation, should leave the British with a profitable investment and will probably give Argentina a more efficient rail system.





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## Effect of Demobilization on Soviet Military Potential

The third stage of the Soviet demobilization program was approximately completed on 1 September. Seven classes (1922-1928, inclusive) remain under arms. Current reports support previous estimates that no further substantial demobilization is presently intended.

The strength of the Soviet armed forces is now estimated at 4,500,000 men, well below the wartime peak of 12,500,000, but well above the pre-war norm of 562,000 in 1933. Even with the release of 8,000,000 men to civilian tasks of reconstruction and development, the Soviet armed forces remain most formidable in both absolute and relative terms.

There are now 1,600,000 Soviet troops in Europe outside the USSR, and even where forces in Europe have been reduced, heavy equipment has been left behind so that it can be manned on short notice. The Soviets also have shown a marked interest in equipping and training satellite armies along Soviet lines. The Yugoslav Army, for example, plans to reach a strength of 1,000,000 men by 1948, and for all practical purposes should be included in considering the Soviet potential.

The massive Red Army of the past, designed primarily to defend the vast Eastern European front, was deficient in transport, equipment and organization and proved unwieldy in many operations. Almost all of its offensive successes were achieved through the skillful use of mobile striking forces. As a result of these lessons, mobility is the prime concern of present Soviet military planning. In achieving it, the release of masses of "peasant" infantry troops and the retention in service of smaller numbers of highly-trained and well-equipped specialists is a logical step.

The Soviet demobilization to date has resulted in no reduction of Soviet military strength in critical areas. Discontinuance of demobilization at this point indicates an intention to retain overwhelming superiority in immediately available military power for an indefinite period.





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## Effects of Soviet Propaganda

The continuing Soviet propaganda barrage against the "reactionary" and "war-fomenting" activities of the US and UK appears designed, first, to keep alive in the US and the UK active opposition to any firm policy toward the USSR; and second, to spur the Soviet masses to greater effort by raising the specter of imminent patriotic war.

In its first objective, the undertaking has met with considerable success. Many moderate and liberal groups have been so divided over the issue of policy toward the USSR that their potentialities for opposing Soviet tactics have been at least neutralized.

The effects of the campaign within the USSR are more difficult to appraise. While there is little doubt that it has seriously alarmed the Soviet people, scattered reports indicate that it has depressed rather than inspired them. The average citizen of the USSR seems to be anxious and distressed over the prospect of another war, and bewildered as to why the US and Britain should "want" it. The Soviet masses are suffering from severe emotional and physical exhaustion, and in many cases are bitterly disappointed that the long-promised increases in freedom and comfort have not followed the defeat of the Axis. Ideological purges and alarmist propaganda have not checked this condition, and the majority of the Soviet people appear eager for any straw of reassurance as to Anglo-American intentions.

## Polish Political Tension Increases

Secretary Byrnes' Stuttgart speech has intensified the pre-electoral battle in Poland. Mikolajczyk's stubbornness in demanding separate electoral lists in the coming election has been based largely on his reliance on Anglo-American ability to fulfill the Yalta pledge for free and democratic elections in post-war Poland. The speech has spurred the Communist-dominated Government to renew its accusations that Mikolajczyk favors foreign meddling in internal Polish affairs, and to increase its terrorist efforts to eliminate Mikolajczyk's Peasant Party as an effective political force.



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Despite immediate assertions by Peasant Party leaders (Mikolajczyk himself was in Copenhagen) that they favored the retention of Poland's present western boundary, the Communists seized upon the Secretary's speech as an excuse for demonstrations against the US, UK and the Peasant Party and for the destruction of many Peasant Party headquarters. In addition, the Government parties published an open ultimatum to the Peasant Party, accusing it of working against Poland's national interests, allowing Anglo-Saxon meddling in Polish affairs, supporting underground fascist bands, and disrupting unity by refusing to join an electoral bloc. By demanding unequivocal answers to these accusations, the Communists will probably force Mikolajczyk, who has been "urgently" recalled to Warsaw by his Party, to make a major decision.

Although Mikolajczyk could be expected to obtain a majority in completely free elections, the experience of the 30 June referendum leaves little doubt as to the Government's ability and intention to prevent such an eventuality. Furthermore, Mikolajczyk's participation in the election on a separate ticket would set the stage for violence and bloodshed that in the end would prove disastrous for his party. Were Mikolajczyk to accept the Government's current offer of 25% participation in an electoral bloc, he would probably stave off the Government's increasingly vigorous efforts to eliminate him from the Government altogether.

## Political and Economic Tension in Hungary

Political tensions and public unrest have been increased in Hungary by new economic hardships and decisions unfavorable to Hungary at the Paris Peace Conference.

Though the Communist-sponsored currency stabilization program has temporarily succeeded, it has led to currency shortages and deflation of prices which have caused widespread business paralysis and unemployment. Over-evaluation of the new currency, apparently under Soviet pressure, has strengthened the isolation of the Hungarian economy from the West, and reparations to the USSR still constitute the biggest





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drain on the country's economy. A new currency inflation is expected to break out within two to four months. Thus the stabilization program for which the Soviets and the Hungarian Communists hoped to claim credit may work to their disadvantage.

Hungary's failure to obtain a revision of its Transylvanian border or any other concessions at the Peace Conference has also been a heavy blow to popular morale and has aggravated the conflict between Premier Nagy's Smallholders' Party and the Communists. The latter have blamed Hungary's failure on the lack of Soviet confidence in Nagy, who in turn has declared publicly that Hungary stands alone and can expect no help from other powers. Nagy's statement was significantly borne out by the failure of Hungarian Communist delegates at Paris even to obtain any sympathy from other Soviet satellite states. Non-Communist Hungarian delegates, in a new attempt to overcome Hungary's isolation as well as to counteract "Slav encirclement," currently are seeking closer ties with Austria, Italy and France.





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## Icelandic Parliament Considers Base Agreement

Prospects for ratification of the US base agreement by the Icelandic Parliament, which has just convened in special session, appear moderately good, though the vote may be close. Prime Minister Olafur Thors' powerful Conservative Party presumably will back its leader in support of the US proposals. Since the Communists in the government are openly hostile to the agreement, the issue may be decided by the Progressives (the second largest party), whose attitude has remained non-committal.

Thors, himself, is apparently confident of the outcome and seems ready to take an unusually strong stand to assure success. He has told US negotiators that he would inform the Althing that an unfavorable vote would indicate lack of confidence and force his resignation. Thors apparently recognizes that such a stand may cause the Communists to withdraw from his Government or lead to other changes in the present coalition. He presumably hopes, however, to bolster his own position by emphasizing the concessions which circumstances enabled him to extract from the US (including the final reduction of the agreement's duration to five years) and thus pose as a "defender of Icelandic interests.

However, if Parliamentary opposition seriously threatens the outcome, Thors may be expected to request from the US further restrictive interpretations of the terms prior to a final vote.

The Communists, who have for some time posed as defenders of Icelandic interests, oppose all "privileges" for the US and argue that, in any case, the withdrawal of US forces from Iceland should precede any agreement. In Cabinet discussions they have frankly asserted that the USSR would consider any Icelandic cooperation with the US as an "unfriendly act." Since the USSR is in a position to absorb 70% of Iceland's fish exports, pressure from Moscow in this issue can in fact be very powerful. The Communists, however, will be circumscribed in their exploitation of the fish-export issue by their natural reluctance to emphasize any affiliations with Moscow.





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## Qavam Checks Anti-Tudeh Move in Southern Iran

The arrest by Qavam's right-hand man, Prince Firuz, of two leading chiefs of the Bakhtiari tribe has checked a potentially serious threat to the Government's authority in southern Iran. The Bakhtiari are alleged to have conspired with the neighboring Qashqai tribe to overthrow Tehran's authority. Both Qavam and Firuz also claim that British officials in Iran actively promoted the conspiracy.

The Bakhtiari and Qashqai are the two most important tribes in southern Iran and dominate an area including a large part of the British oil concession territory and extending north as far as Isfahan, 200 miles south of Tehran. The tribes recently signed an agreement which provided for joint action against their mutual enemies -- the Soviet-inspired Tudeh Party, sponsor of the oil workers' union at Abadan. The Bakhtiari long have been under British influence and the agreement brings the Qashqai into line with British policy.

The arrest of the chiefs at Isfahan on 7 September followed rumors that the tribes were about to start a drive to expel Tudeh Party agents from southern Iran. Firuz, who was sent by Qavam to carry out the arrests, also declared martial law in the city and later arrested several other Bakhtiari leaders.

Firuz and Qavam both have declared to US Ambassador Allen that they have written evidence of a plot devised by the Bakhtiari, in meetings with British officers, to seize the principal cities of southern Iran. The seizure was to have been carried out on 16 September. Qavam, however, cited as his principal witness an ambitious Bakhtiari chief who has since been appointed Governor of the Bakhtiari. Firuz further stated that the Government was considering appealing to the UN Security Council against British interference.

The extent to which British officials were involved in the "plot," or to which the "plot" is a fabrication of Qavam and Firuz, appears difficult to assess. There appears no reason to doubt, however, that a successful anti-Tudeh drive by the Bakhtiari and Qashqai would have weakened Tehran's authority in the south and also would have strengthened the British, whose oil production at Abadan is threatened by the





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Tudeh-organized oil workers' union. The arrest of the pro-British Bakhtiari chiefs, conversely, reaffirms Qavam's intention to bring the Tudeh Party eventually into his own party as well as avoid an extension of British influence which might be expected to provoke a similar pressure by the USSR.





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## British Attempt to Effect Truce in Indonesia

As a prelude to the forthcoming negotiations between the Indonesians and the Dutch Commission General late in October, British General Mansergh has ordered Allied forces in Indonesia to avoid hostile acts in their areas of occupation. Planes are forbidden to fly over Indonesian territory, and all clashes with Indonesians are to be minimized and localized as far as possible. The British hope to demonstrate the sincerity of Allied desires for a truce and to persuade Indonesian leaders to restrain their forces.

US sources in Batavia report that most of the Indonesian people strongly favor a truce. The fact that many natives have tried to enter Allied perimeters for refuge indicates that anti-Allied sentiment is not as widespread as Indonesian leaders have asserted.

The achievement of an effective truce is, however, impeded by the existence of fanatical groups and ambitious leaders in Indonesia who will obstruct any settlement which might jeopardize their position. Certain Indonesian officers refuse to abide by general agreements between Allied negotiators and responsible Indonesian political leaders and have kept internees as hostages in violation of evacuation agreements. Editorials in the Indonesian press treat British or Dutch concessions as signs of weakness, and British efforts at mediation, such as Lord Killearn's recent visit to Djokjakarta, as de facto recognition of the Indonesian Republic. Finally, the Indonesian "Army" in Java, estimated at 100,000 (of whom only 20,000 could be armed from equipment on hand) probably could protract indefinitely guerrilla operations against such numerically inferior forces as the Dutch appear able to muster in the area.

## Communist Armies Lose Ground in China

The most significant military activity in China in the past fortnight has centered in the Hopei-Jehol area northeast of Peiping. In this area are located the Central Government's principal coal supplies (the mines around the town of Tangshan) and rail lines vital to the Nationalists both for transporting coal and for supplying KMT forces in Manchuria. Recent rail demolitions and increasingly frequent derailments of coal



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trains by Communist guerrillas along the Tientsin-Chinwangtao Railroad, at those points from which US Marine railway guards had been withdrawn, have endangered both the economic and military position of the Central Government. A strong Nationalist offensive was therefore launched at the end of August to secure the railway and to drive CCP forces away from the coast and the flanks of the extended KMT salient into Manchuria.

Concurrently, KMT forces under the command of General Sun, Commander of the Eleventh War Zone, have been preparing to relieve the remainder of the US Marines as rail and mine guards at Tangshan and along the railroad, effective 15 September and terminating early in October. US forces are thus relieved of the responsibility of safeguarding Nationalist communications and likewise from the danger of direct clashes with Communist forces.

The successful execution of the Hopei-Jehol campaign by Nationalist forces has resulted in the elimination of organized Communist resistance along the Tientsin-Chinwangtao railroad. However, because of the skill of CCP troops in eluding KMT mop-up operations, further guerrilla activity and sporadic interruption of rail traffic can be anticipated. A second line of communication with Manchuria has been opened to Nationalist forces while traffic between the Communist administrative center of Kalgan and CCP forces in Manchuria has been forced westward into Inner Mongolia.

The deterioration of the Communist military position has decreased the possibility of forcing political concessions from the KMT. Communist representatives now insist upon a military truce as a condition for political negotiation in order to avoid further loss of territory and military bargaining power. Nationalist negotiations, on the other hand, want a political consolidation of their favorable military position before they will agree to a truce.



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## Interzonal Exchange of German Newspapers

The USSR's determination to prevent a genuine interzonal exchange of publications in Germany appears undiminished, despite its agreement in principle to such procedure. Soviet unwillingness to concur with a US proposal for interzonal exchange of newspapers actually has increased since anti-Soviet articles appeared in the British-licensed German press a few weeks ago.

The Soviet representative on the Political Directorate of the ACC has submitted a counter-proposal, approving interzonal exchange in principle but subject to such restrictions as would, in effect, re-affirm the absolute censorship of the individual zone commander. The Soviet representative declared that the USSR was anxious to start the proposed exchange as soon as possible. His remarks indicated, however, that the USSR is only prepared to implement a one-sided exchange, since under questioning, he admitted that of all the newspapers published in Berlin only four were "suitable" for interzonal exchange. These four papers are all published under Soviet license.





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## Italian Communists Attack Anti-Inflation Policy

The political strain in Italy resulted in open conflict last week when Corbino, non-Party Minister of the Treasury, submitted his resignation and charged that Communist press attacks against him had in large part brought on the impending financial crisis. Corbino has pursued a resolute anti-inflation program, and Communist Cabinet members previously had pledged their support of the Government's general economic policy. Despite those pledges, however, the Communist Party press now has launched a campaign to obstruct that policy and thus discredit the predominantly Christian Democrat Cabinet.

The struggle between Corbino and the Communists in its present phase has been fundamentally over the winning of public confidence. The two factions agree that economic conditions require drastic measures of reform. Corbino proposes to restore stability by holding the line on wages while reducing production costs and eliminating financial controls. The Communists are pressing for substantial wage increases and provisions for increased employment. Corbino charges that Communist attacks, by casting doubt upon the anti-inflation policy, have made that policy impossible to carry out. He feels that there must be a showdown between those who, as he sees it, sincerely desire reconstruction and those (the Communists) whom he regards as desiring for political reasons to keep Italy in disorder and confusion. The Communists, on the other hand, attribute the acknowledged economic instability of the country to the fact that Corbino has been final authority on all proposed financial measures. The conflict, whatever the merits of the contending views, has weakened the lira in the black market, raised the prices of basic commodities and caused a significant decline in the strength of Government securities.

The showdown was postponed by Corbino's agreement to remain temporarily in the Cabinet and may be permanently averted despite the final acceptance of Corbino's resignation on 11 September. The Corbino stand appeared to have the wholehearted support of the centrist Christian Democratic Party and the leftist Action Party. He also appeared likely to enjoy the support of the Socialists, who have contended that the worker's position should be improved by increased rations and production rather





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than by monetary wage increases. Some official circles favor formation of a Government excluding the Communists, and possibly also the Socialists, who may be unwilling to allow the Communists to become the single mass opposition party. It is believed unlikely, however, that de Casperi will move in this direction before the peace treaty is concluded. The more probable present solution is a compromise settlement with the Communists.



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Prospects in Dutch-Indonesian Negotiations

Negotiations between Dutch and Indonesian representatives appear likely to be resumed in the near future, but there is considerable doubt that a satisfactory permanent settlement can be achieved.

After considerable delay resulting from the divergence of views between conservative and progressive Dutch political elements at home on the question of Indonesian policy, the Netherlands Government has appointed a Commission General to assist Van Mook in negotiations with the Indonesian Republic. The Commission General is expected to leave for the Netherlands Indies about 14 October. In the meantime, in response to Indonesian suggestions, a Dutch mission headed by Dr. Koets, Van Mook's political advisor, will proceed from Batavia to Jogjakarta on 15 September to talk with Indonesian leaders and to obtain a first-hand view of conditions within the Indonesian "Republic." In addition, Van Mook recently sent a letter to Sjahrir suggesting that preliminary talks be held to prepare for the arrival of the Commission General. Indonesian, Dutch and British officers are now assembling at Batavia to discuss arrangements for a military truce in Java and Sumatra.

Developments during the suspension of negotiations, however, seriously prejudiced prospects for a permanent settlement. Van Mook has declared privately that the delay of the Netherlands Government in naming the Commission General had afforded the extreme Right in the Netherlands and terrorist elements in Indonesia opportunities for disruptive activities and had increased the confidence of the Indonesians in their own strength. Lord Killearn's conversations with Sjahrir in Jogjakarta appear to have further encouraged an uncompromising Indonesian attitude. Some US observers believe that Indonesian acceptance of Dutch proposals is unlikely and when British forces in the area are withdrawn at the end of November, hostilities will increase in scope.





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Current Economic Prospects in China

Despite recent optimistic statements and remedial efforts by the Central Government, the outlook for amelioration of China's chaotic economy remains doubtful.

On 7 August, the Chinese Minister of Information stated that the country's financial position had "greatly improved," since there had been no increase in the issue of national currency during July. Subsequently, the Government took two steps to reduce the wide discrepancy between imports and exports (which had stood in a 10 to 1 ratio during the first half of 1946), to encourage overseas remittances, and to stimulate production. On 19 August it depreciated by 66% the official exchange value of the CN$ and later abolished duties on imports. In mid-August, the Government disclosed that it intended to "hold the line" against inflation by selling in the open market large stocks of gold, rice and other foods, and textiles; and stated that it had ordered the Fuel Control Commission, transport and communication services, and other public enterprises not to raise prices. The Government has also pointed out on several occasions that crop prospects for the fall harvest were extremely favorable. On 30 August it concluded a US surplus property agreement, whereby it is to acquire surplus equipment and installations originally worth about $800,000,000 for approximately one-fifth the initial cost (and with little or no outlay of foreign assets); this agreement was accompanied by statements citing material economic benefits that would accrue to China through the use and sale of such property.

Despite these developments, it is doubtful whether economic conditions in China will improve in the near future unless there is an abatement of the conflict between Nationalist and Communist forces. Continuation of the civil conflict on its present scale will probably result in further economic deterioration during the coming fall and winter months. Although national revenues may continue to increase, the budgetary deficit will undoubtedly resume its upward trend, and the Central Government will once again be compelled to support the bulk of its military expenditures by the inflationary issue of new currency. Under such conditions, the increasing volume and turnover of currency in circulation, together with continued speculation and hoarding, may be expected to outweigh by far the anti-inflationary effects of official sales of goods and





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services at fixed prices, particularly since the latter are not reinforced by an effective system of price controls.

Past experience indicates that, with the development of further inflation, Government financial and banking authorities will be reluctant to aggravate the trend by an additional depreciation of the CN$ in an effort to minimize the competition offered to domestic industry by foreign imports. (The 19 August depreciation was too small to reduce that competition materially.) The Government has been considering the imposition of protective tariffs on competing imports, but may be restrained from taking that step in view of the impact on the commercial treaty negotiations now in progress.

The increasing inflation, speculation, corruption, and disruption of transportation that would accompany a continuation of China's civil conflict, promise to aggravate the difficulties of distributing new food supplies, as well as all other commodities, throughout the country.

There is no doubt that the US surplus property transfer will ultimately be of great advantage to China. The Government will be aided in its fight against inflation by the realization of substantial revenues from sales, and the surplus tools and equipment will provide an important means of improving China's communications system. However, considerable time will probably elapse before any appreciable quantity of newly-acquired surplus property is put to effective use, because of inadequacies of technical assistance, inefficient management, and lack of detailed plans for exploitation of the property.

Economic conditions in China will approach a desperate state if the civil conflict grows in intensity. Moreover, economic crisis in urban centers will quickly develop if Central Government forces do not succeed in protecting the major sources of coal. Approximately three-fourths of all coal currently being supplied to Shanghai, the nerve center of the Chinese economy, as well as most of the coal reaching Peiping and Tientsin, comes from the Kailan mines in northeastern Hopei Province, now the scene of fighting. (In that area, Nationalist drives against Communist forces reportedly were launched during the first ten days of September,





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in order to eliminate the immediate Communist threat to coal mining operations and transportation, and to clear the way for the assumption by Nationalist forces of guard duties that have been carried on by US Marine personnel.) Coal supplies reaching Shanghai in recent weeks are described as "barely enough for present needs, with little opportunity to stockpile against the increased seasonal demand of the coming months." Some of the less important sources of coal supply also lie in such potential areas of conflict as Shantung and northern Anhwei.

Severe economic crisis would lead to serious labor troubles and popular unrest, and might endanger the political security of Nationalist China. The threat of such a crisis, in fact, may be offered by moderate and liberal elements within the Kuomintang as a strong argument against committing the nation to large-scale civil warfare.





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# SPECIAL ARTICLES

## 1. The Argentine Communist Party



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## THE ARGENTINE COMMUNIST PARTY

Argentina's twenty-seven-year-old Communist party, supported by some twenty thousand active members and fifty thousand "fellow travellers," occupies a strategic position both in the politics of its own country and in the Latin American Communist network as a whole. Despite its total failure in the recent Argentine elections, which left it unrepresented in Congress, it is likely to exercise an influence upon the course of events far greater than its size and long-term record would suggest.

The Party owes its position in part to the political designs of the present Argentine Government, in part to Argentina's relative self-sufficiency and bargaining power in the Hemisphere. Argentine international strategy--based upon playing off the US, the UK and the USSR against each other--dictates the maintenance of normal relations with the USSR. In order not to prejudice negotiations with the USSR, Argentina is willing to concede to the Communist Party an area of freedom which might otherwise be withheld. Correspondingly, Argentina's strong position in the Hemisphere affords the Argentine Communist Party a better opportunity than most other Latin American Communist Parties to influence Hemisphere developments along Soviet-desired lines by exerting pressure on the Government.

The Communist Party in Argentina at present seeks to encourage actions by the Argentine Government which would undermine US influence in South America, disrupt the Pan-American system, and above all delay the negotiation of an effective Hemisphere defense pact. To increase its own strength and further these objectives, the Party has carried on in Argentina a sustained campaign for control of the trade union movement, continuous efforts to create wider coalitions of leftist groups, and a bold propaganda campaign stressing friendship to the Soviet Union and opposition to US "imperialism."

As in the other Latin American Republics, the Communist Party in Argentina has attracted, and promoted to posts of leadership, intelligent, aggressive, and resourceful men. The two most outstanding are Victorio Codovilla, once chief of the South American Office of the Third





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International, and Rodolfo Ghioldi, who is a key member of the Party's National Executive Committee.

Since its legalization in 1945 after fifteen years underground, the Communist Party of Argentina has, with typical Communist disregard of previous commitments, repeatedly adjusted its line to meet new political situations. Although its sustained crusade against Peron should logically have committed it to a boycott of the recent elections, it joined the coalition supporting Tamborini and, by participating in the elections, in effect subscribed to the "freedom" of the police-ridden electoral campaign. Since Peron's election it has even committed itself, through its central Committee, to limited collaboration with his Government and, reversing another previous stand, has recently supported Peron's "one big union" drive to reorganize Argentine labor. This latest reversal represents an effort to exploit Communist strength in such powerful unions as the Metallurgical, Construction, and Textile unions as a base from which to capture the new, all-inclusive organization.

There is reason to believe that the Argentine Communists maintain close liaison with the Soviet Embassy in Uruguay, and are so organized as to prove immediately useful, as an information-gathering agency, to the new Soviet Ambassador to Argentina. In this connection, recent reports from Chile indicate that a new headquarters for Communist activities in South America has been established in Argentina.

Argentina's capable Communist leaders must reckon, however, with three formidable obstacles to their bid for popular support. The relatively high standard of living of the bulk of Argentina's population encourages satisfaction with the country's present economic system. Argentina's Roman Catholic Church is strong and its hierarchy is militantly anti-Communist. The pro-labor and nationalist policies of the present Argentine Government tie to Peron numerically important economic groups which might otherwise respond to Communist appeals. These obstacles are, to an extent which it is too early to estimate, offset by the deep-seated anti-US sentiments of some elements of Argentina's population, which, in a future international crisis, might for this reason rally behind the Communists.



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## Soviet Propaganda Charges US Threatens Small Nations

A significant new theme in the intensified Soviet propaganda offensive against the US and UK is the allegation that the two Western Powers are ruthlessly disregarding the rights of small nations. The US "ultimatum" to Yugoslavia regarding the plane incidents is described as "unexampled crude pressure of a great power on a small one." The US is also attacked for its "unlawful detention" of Yugoslav river vessels on the Danube and for "intimidation" in parading the US 88th Division in Venezia Giulia.

Soviet reaction to a recent US note expressing misgivings over the Soviet-Swedish trade proposal, and to British and US notes regarding the forthcoming elections in Poland, has followed a similar line. These actions, it is charged, constitute "open intervention in the internal affairs of independent nations" and are designed to "injure the sovereign rights of free states." The visit of US Naval vessels to Greece and the then proposed display of US air strength also have been offered as proof of the sinister character of American designs, and have been described as "a most shameless example of atomic diplomacy."

PRAVDA maintains that Anglo-American actions have aroused the hostility of small nations who do not desire to trade their independence for the "doubtful honor" of becoming Anglo-American dependencies and ingenuously argues that this revolt of the small powers is a prime cause for lack of progress at the Peace Conference.

While the Kremlin has always paid lip-service to the rights of small powers, it has rarely gone so far as to identify itself with their cause. The Soviet decision to do so now suggests concern over the unfavorable effect of some recent Soviet policies on small states both inside and outside the Soviet sphere.





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## Tito Remains Recalcitrant

Although Tito has apologized for the loss of US lives in the 19 August plane incident and has promised that no more US planes will be shot down over Yugoslav territory, he has disavowed responsibility for the deaths which occurred. Moreover, it is by no means certain that Yugoslavia will pay the damages asked by the US or that US-Yugoslav relations will improve in the near future.

In a conversation on 31 August with US Ambassador Patterson, Tito clearly revealed the divergent ideologies and aims separating the two countries. He defended Yugoslavia's position on the plane incidents belligerently and aggressively and accused US Embassy employees of collaborating with "very dangerous terrorists" who were seeking to overthrow the Yugoslav Government. He also referred to the "bullying attitude" of some big powers toward small countries and vowed that Yugoslavia "will never allow itself to be humiliated."

In the light of such statements, Tito's assertion that "it is necessary to show good will to settle our mutual difficulties" must be viewed with reserve. It is more likely that he will seek to regain "face" by distorting the present issue and continuing to bring charges designed to discredit the US. On the other hand, his compliance with the US "ultimatum" suggests that neither he nor the Soviets are prepared to press the war of nerves beyond the breaking point.

## Greek Prospects Following the Plebiscite

The return of King George by plebiscite to the Greek throne temporarily at least settles the monarchical issue. It does not, however, resolve the basic issues which divide the electorate into two hostile extremist camps nor does it improve the prospects for internal stability and order. The outlook for continued economic dislocation and civil disorder, with their serious international implications, remains virtually unchanged.

The rightists now in power are expected to oppose any efforts by the King materially to broaden the base of the present Government;





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the leftists indicate that they will not accept peacefully the results of the plebiscite. It is therefore evident that the leftists will continue to incite disorder and the rightists will persist in their efforts to keep order by authoritarian methods. Under such conditions, the re-emergence of a substantial liberal Center appears remote, since it was fear of a Red dictatorship or opposition to rightist extremism which drove the moderates into one or the other of the extreme camps.





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## Leftist Gains in French Socialist Congress

The swing to the left within the French Socialist Party, as evidenced in the resolutions of the Party's recent Congress, weakens but does not eliminate the influence of the old guard under Leon Blum. In its final resolution the Congress refused to accept a program of unity with the Communists except as an ultimate goal and then only if national Communist groups are liberated from Soviet domination.

The new leftist majority appears to be not a unified bloc but a grouping of divergent elements held together by common dissatisfaction with the Party's defeats and mutual desire to increase the Party's adherence to doctrinaire Marxism. These elements now have gained the most active and vigorous representation in the Party's Executive Committee and accordingly are able for the first time to influence Party policy directly.

The shift in power within the Party probably will not affect the stability of the Government or Party unity before the general elections on 3 November. Despite its assertions of independence of the Communists and declarations of even greater hostility toward the MRP and the rightist Radical Socialists, the Congress did not vote against continuation of the three-party coalition Government. The Congress agreed, however, that subsequent Socialist participation in a coalition would be contingent on the adoption of a "minimum program" acceptable to the Party.

The Congress reaffirmed traditional Socialist objectives of limited nationalization and equitable wage-price adjustments at home and condemned Big Four domination of the Peace Conference and of the UN. It supported the Blum thesis on Germany -- "no dismemberment, no annexation, but economic internationalization of the Ruhr."

The policy resolutions adopted by the Congress in its closing session appear, despite their reflection of leftist influence, to constitute a compromise considerably more moderate than the earlier decisions which had embodied the rejection of Blum's leadership. The dominant concluding theme shows more evidence of the Socialists' desire to pursue an independent line than of their intention to increase their collaboration with the Communists.





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## Peace Through Negotiation Doubtful in China

Despite the formation late in August of a Committee of Five to discuss questions related to the reorganization of the State Council, the continued unyielding positions of both the Nationalists and the Communists give little hope for a political settlement in China.

Reorganization of the State Council, which would be the supreme body in any coalition government in China, was one of the key issues not resolved by the Political Consultative Council in January. At that time the principal obstacle to agreement was Communist and Democratic League insistence upon a voting procedure and scale of representation which would have given them a virtual veto power over any Nationalist proposal. The negotiations in the new Committee of Five so far have proved no more fruitful. From the outset, the Committee has been embroiled in the entire tangle of interlocking issues which divide the Nationalists and the Communists.

At the start of the negotiations, the Communists in the Committee demanded that the Generalissimo agree, in the event that the State Council issue is settled, to issue a cease-fire order which would not be contingent upon Communist withdrawal from five key areas. Concurrently a Communist spokesman made the familiar assertion that the separate Communist governments would be convened to "consider the next step" (a threat to secede and establish a separate state), if the Nationalists should proceed to reorganize the government prior to 12 November without first forming a coalition. At the same time a Nationalist statement believed to have emanated from the Generalissimo himself announced the Government's determination to carry out the reorganization prior to 12 November with the participation of all elements which would accept the Government's terms. The statement also called upon the Communists to evacuate areas where they menace security and communications and indicated that the draft constitution worked out by the Political Consultative Council must be revised.

Informed observers in China appear to agree that the fundamental differences between the two factions cannot be resolved by negotiation and agreement will not be reached until one side or the other is compelled to give way.





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# SPECIAL ARTICLES

## 1. US Base Difficulties in Peru and Panama



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## US BASE DIFFICULTIES IN PERU AND PANAMA

The obstacles encountered by the US in attempting to acquire long-term base rights in Portugal and Iceland now are recurring in negotiations for similar rights in Peru and Panama. Intensified nationalism is again taking the form of extreme sensitivity to the presence of foreign troops or to any infringement of sovereignty. (Similar difficulties have arisen in connection with Ecuador, Brazil and Cuba but have been at least temporarily resolved.)

After the termination of hostilities in 1945, the US arranged to return the US-developed airbase at Iquitos, Peru, to the Peruvian Government and entered into negotiations for continued use of a similar base at Talara. In June 1946, President Bustamante declared his intention to sign an agreement for the future joint operation of this base. In the light of excellent US relations with Peru, it seemed probable that the Peruvian Congress would extend the necessary ratification after it assembled on 28 July.

On that date, however, several Peruvians, including a Peruvian Naval Officer, and a number of US military personnel were involved in a brawl near the airbase. The Peruvian newspapers and members of the legislature immediately demanded an explanation of the presence of US Army personnel in Peru after the cessation of hostilities. (No public statement on the continued presence of US personnel had been released by the Peruvian Government.) After the US Ambassador had sent a formal note of regret on 7 August, Peruvian press treatment of the incident was calmer, and President Bustamante and other key political figures stated that it should not be allowed to influence "larger affairs." The Peruvian press, however, subsequently expressed resentment at "minimizing" an incident that affected Peru's dignity as a nation.

Since the US cannot legally claim extraterritoriality in this case, the Ambassador has been instructed to turn over to the Peruvian Government the US personnel involved, to seek adequate assurances of a speedy and just trial both for the US soldiers accused and for the implicated Peruvians, and to make certain that the Americans have legal representation and protection.



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No agreement regarding the operational use of the base is likely to be concluded pending a mutually satisfactory disposition of the case. In view of the favorable Peruvian attitude toward the US before the incident, however, there is every reason to expect a base settlement favorable to the US.

The bilateral agreement between Panama and the US signed 18 May 1942 provided for evacuation by the US of the defense sites used during the emergency within one year after the effective date of the "definitive convenant of peace." It further provided for negotiation of a new agreement if the two governments decided in the meantime that international insecurity rendered imperative continuation of the defense sites.

On 6 November 1945, the Panamanian Foreign Minister publicly stated that his Government regarded 2 September 1946 as the date by which US troops might be expected to evacuate the defense sites.

Secretary Byrnes, when asked in a press conference the next day to comment on the Foreign Minister's address, indicated that the US would fulfil its agreements regarding the withdrawal of American forces.

Through the spring and summer of 1946 the Commanding Generals in Panama and the Caribbean recommended to the War Department that negotiations be initiated at an early date to secure long-term agreements for those operating sites in Panama considered essential to the defense of the Canal. On 30 August Ambassador Hines was instructed to inform the Government of Panama officially that the US desired to reopen discussions concerning the defense sites. On the same day the former Minister of Foreign Relations who had concluded the original agreement publicly informed the President that in his opinion the sovereignty of Panama would be imperiled if US forces failed to evacuate by 1 September. On 31 August Ambassador Hines received a note from the present Foreign Minister asserting that the US had never contradicted his public statements in November 1945 regarding the evacuation date. The statement, he contended, had in fact received the tacit assent of the US in Secretary Byrnes' subsequent press statement. The Foreign Minister added that it was not until the last day of the one-year period that the US Government



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had advised Panama of its view that a state of international insecurity existed, and that Panama had understood up to that time that the defense sites would be returned.

As matters now stand, Panama has signified her willingness to consider such evidence as the US may offer, in order to determine whether circumstances require negotiation of a new agreement. However, according to press reports, President Jiminez called a special session of the Cabinet, and has stated that any agreement for the occupation of defense sites would be negotiated only after sites now occupied have been returned. The press also reports a new resolution passed by the National Assembly that "it is indispensable that the US proceed to return the defense sites which it has not yet evacuated despite the fact that the term fixed therefor has expired."





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## Soviet Internal Problems

Available information on current conditions inside the USSR, though meager and inconclusive, leaves little doubt that there is discontent among the people and confusion in the state economic machinery. The USSR faces its tremendous task of post-war reconstruction handicapped by disturbing internal stresses.

The few foreign observers who have had a chance to talk with Soviet citizens report frequent complaints over the hardships of every-day life and disappointment that the long-promised fruits of victory have not been forthcoming. While the general attitude seems to be one of characteristic Russian fatalism rather than resentment, there have been occasional reports of overt resistance to state authority, especially in the Ukraine. The situation is no doubt aggravated by returning military personnel, who bring back stories of relative luxury in other countries and who find civilian living standards below those enjoyed by the Red Army. The Kremlin's sensitivity to these developments is probably increased by its awareness of the substantial number of cases of desertion and collaboration with the enemy during the war. Another cause for alarm, according to Party organs, is the recurrence of private property conceptions among the rural population, especially in areas previously under German occupation.

Disaffection in higher circles also is evident. Persistent reports of shake-ups in the Army high command tend to substantiate rumors that the Marshals are not satisfied with their peace-time status, while "socialist justice" seems to be overtaking a number of prominent Party, governmental and literary figures. Explanations are varied, but it is likely that the militant domestic and foreign policies now being laid down necessitate weeding out those suspected of pro-Western leanings. The dismissal of Litvinov and the transfer of Zhukov, both closely identified with Soviet-American collaboration, are particularly significant.

Economic difficulties, which in most cases are officially attributed to inefficient local management and corrupt minor officials, are probably due also in part to war-worn factories and sagging worker morale. There is evidence that personal profiteering and the falsification of production figures, which are now receiving so much attention in the Soviet press,





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were relatively common practices throughout the war and often were carried on with the knowledge of the highest authorities. The sudden and violent campaign against them may result from the Kremlin's desire to disown what has become a widely-known scandal.

While the evidence outlined above indicates that Soviet internal difficulties are serious, there is no reason to suppose that they are critical. The Kremlin may be counted on to take all possible steps to correct them, and one such step is to point to the threat of foreign aggression. The resulting atmosphere of crisis can serve to stimulate effort and distract attention from the hardships of everyday life.

Should Soviet internal conditions, in the eyes of the Kremlin, reach an alarming state of deterioration and the Soviet diplomatic offensive fail in its current objectives, Soviet leaders might conceivably seek a "short and easy" war in order to strengthen internal cohesion, regain domestic control, and exploit their present military superiority in critical areas.

## Yugoslav Reaction to US Stand on Plane Incidents

Tito's compliance with the US ultimatum of 21 August and his "regrets" over the death of US fliers in the second transport plane have been coupled with fresh charges that the US and UK have violated Yugoslav sovereignty. Although his prestige temporarily has been reduced, he may be expected to press the war of nerves in pursuance of Yugoslav and Soviet aims in the western Balkans.

It is impossible that Tito would have permitted the attacks without tacit Moscow approval, although undisciplined Yugoslav Communists may have exceeded or distorted Moscow directives. (The Albanian shore battery attack against British cruisers in May appears susceptible of a similar interpretation.) In either case, the USSR is standing by her puppet. The US ultimatum was immediately followed by the Ukrainian charges that Greece threatens Balkan peace; on 26 August the Moscow radio asserted that the US owed Yugoslavia an apology for violations of Yugoslav sovereignty; on 24 August the Ukrainian Foreign Minister publicly asserted that US flights over Yugoslavia were a violation of the UN Charter.





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While this test of the resoluteness of US intentions in Venezia Giulia has lessened temporarily Tito's prestige both at home and abroad, there is little reason to believe that the current war of nerves has ended. Tito can be expected to make every effort to save face and to turn this temporary rout into a long-term gain. His ultimate goals are the withdrawal of Anglo-American occupation forces from Zone "A" of Venezia Giulia, the release by the US of former Yugoslav river steamers on the Danube, a solution of problems involving rail lines through US and British zones in Austria, and most important, a favorable decision on the Trieste problem.

While awaiting the final showdown over Trieste, the Yugoslavs continue their heckling campaign. The most recent highlights have been the "very violent note" of 21 August from the Yugoslav Government claiming intentional damage by the British of the Yugoslav vessel, KING ALEXANDER (previously abandoned by the Yugoslavs as worthless), the recall of the Yugoslav Ambassador from Athens in protest against Greek press attacks on Tito, and the Ukrainian protest to the UN against Greece. There is in addition considerable recent evidence of increased troop movements in the general area of Zone "B". Tito is proving himself a faithful agent in the Soviet program to embarrass the Western Powers to the maximum by depicting them as hostile and aggressive toward smaller nations.

## Qavam's Strong Position in Azerbaijan Negotiations

The Tehran Government appears to hold a strong position in its current negotiations with Azerbaijan. The Soviet Union apparently is pressing the Azerbaijanis to come to an early settlement, and Qavam appears confident of his ability to restore his authority.

The principal point at issue in the negotiations is the incorporation of the Azerbaijan "Army" and gendarmerie into those of the Central Government. Although such incorporation was expressly prescribed by the agreement reached in June, it has not in fact been carried out, and Tehran has not been able to assert its authority effectively more than about 100 miles northwest of the capital. A second point believed to be under negotiation is the amelioration of Azerbaijan's economic distress resulting





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from the bankruptcy of its Government and from the forced export to the Soviet Union of practically all Azerbaijan's cereals and livestock.

The Soviet Union reportedly has directed the Azerbaijan delegation to settle all points at issue before returning to Tabriz, in order that elections for the Majlis may be held and the parliamentary body convoked to ratify the Soviet-Iranian oil agreement. Since Qavam must set the election date, he has the power to make full Soviet exploitation of the new oil concession conditional upon an Azerbaijan settlement. Soviet troop concentrations recently reported on the Azerbaijan border appear to be designed chiefly to afford a show of force to offset the recent British reinforcement at Basra rather than to exert military pressure on the negotiators. The presence of more than nine Soviet divisions on this border is doubtful. Immediate Soviet intentions in this area appear to be peaceful, as is indicated by the apparently genuine preparations to return to Iran full control of the railway between Tabriz and the Soviet border.

Qavam for his part appears determined to achieve a satisfactory settlement and has expressed his intention to employ force if necessary to effect the return of Azerbaijan to full control by Tehran. His representatives in southern Iran recently have weakened the Tudeh Party in the area by arresting its leaders. He has balanced his arrests of Rightist pro-British leaders by arresting five members of a prominent Leftist pro-Soviet family. His closest confidant, Prince Firuz, whose opportunism frequently has proved a weather-vane in Iranian politics, is reported to have broken with the Tudeh Party and to have lost his standing with the Soviet Embassy. Despite Qavam's disappointment over his failure to win over Tudeh elements by admitting Tudeh members to his Cabinet, he appears to feel "for the first time" that he can count securely on the Iranian Army. While he cannot hope, in view of continued Soviet military influence in Azerbaijan, to win an undisputed control over that province, it appears likely that he may in the current negotiations achieve another limited advance toward his goal of an integrated Iran which is independent of both the Soviet Union and Great Britain.



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## Stability of the Austrian Government

Soviet opposition to the Figl Government and popular fears that Chancellor Figl may have overreached himself in boldly opposing Soviet policies have given rise to rumors that the present Government would soon fall. Actually, however, the stability of the Government is greater than these rumors would indicate and the coalition of the People's Party and the Socialists appears to have been strengthened by Soviet tactics.

Although there was an initial tendency for the two parties to clash on the issue of nationalization, the extent of the Soviet factory seizures quickly made it plain to both sides that nationalization was the only possible means of rescuing some of these properties. Similarly the disruptive issue of a trade agreement with the USSR, which the radical wing of the Socialist Party advocated last May, appears to have become quiescent as a result of the "glimpses of the Russian hand" which the Austrians have received in recent weeks. Potentially serious elements of disunity exist within the People's Party, but these are not critical at the moment.

Chancellor Figl's position appears to be stronger than ever, and both President Renner and Vice-Chancellor Schaerf have recently expressed admiration for Figl's steadiness and courage under pressure. Rival provincial leaders in Upper and Lower Austria are looming on the political horizon but are not as yet a threat to the Government group within the People's Party. The position of Foreign Minister Gruber, however, is still weak since he is discredited in his native Tyrol and could hardly count on peasant support anywhere in the country.

## Anti-Western Campaign of French Communist Press

The current bitter anti-US and anti-UK attitude of the French Communist and "fellow traveller" press, apparently instigated by the Kremlin, is increasing in violence and rapidly approaching serious proportions. Like current Soviet internal propaganda it seeks to persuade the masses that the US and UK are the reactionary leaders of a "capitalist encirclement" which menaces the USSR. All current topics are treated in a manner hostile to the US.





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The principal danger to the US from this campaign arises from a widespread belief among lower and even middle-class elements that the USSR represents social progress while the US, because of its unrestrained "capitalism," is socially backward. Communists, Socialists, and Liberal Catholics to a large extent subscribe both to the myth that the US Government is dominated by Wall Street and to the legend of a progressive proletarian "socialist" USSR. By exploiting the fear of US commercial competition, which troubles Rightist as well as Leftist Frenchmen, the Communists strike a sympathetic chord and help the Kremlin to persuade the French that France's "national independence" is endangered by close collaboration with the US and UK.

Significantly, this pattern of Communist propaganda reflects the growing Soviet hostility toward the US and indicates the important role delegated to the French Communist Party in prosecuting the ideological war against the US and UK.

## Differences Within the French Communist Party

A recent meeting of the French Cabinet has brought to light certain apparent differences among the leaders of the French Communist Party. At this meeting Billoux (Communist Minister of Reconstruction) presented a lengthy argument for French support of the USSR, despite the fact that present Soviet policy in many instances is directly opposed to the interests of France. Instead of supporting Billoux, Thorez (Communist Vice-President of France) contended that the French Communist Party must serve France first, even if her interests were opposed to Moscow's.

While this disagreement may have been staged to convey the impression that the Communists' first loyalty is to France, some differences of opinion and personal rivalries apparently exist between two groups of French Communist leaders. The group which includes Thorez appears to desire more freedom of action for the French Communist Party than Moscow seems willing to concede, while the group which includes Billoux appears to accept Moscow's instructions without question. Both factions, however, are composed of thorough-going Stalinists who have served Moscow long and faithfully and can hardly be expected to act independently of the Kremlin. The dissension, moreover, has not yet reached serious proportions though it may eventually lead to a struggle for supremacy between the two groups.





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## Icelandic Premier's Optimism on Base Negotiations

Iceland's Prime Minister, Olafur Thors, now apparently is satisfied that the US base negotiations can be completed without endangering his political position. His confidence seems to be based on a proposed press statement, in which the US will announce that it has suggested abrogation of the present agreement and withdrawal of US troops in return for continued rights in Iceland.

Such a step would discharge Thors' obligation to Parliament with respect to US withdrawal and permit local political discussions of the new agreement to be initiated under circumstances favorable to the Prime Minister. Thors has told US negotiators that he has put two Communist Cabinet members on notice that "reasonable" US proposals will be made an issue on which his Government will "stand or fall." It is unlikely, however, that Thors will actually stake his political future on any agreement. He probably believes that he can further emasculate the agreement, if necessary, and that the US, having elected to raise the question in order to forestall a withdrawal demand from Iceland, will be forced to accept whatever terms he can safely champion.





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## De-Nazification in US Zone Germany

In US Zone Germany the de-nazification program as administered by the Germans themselves since last March has not measured up to the expectations of General McNarney. Less than one-sixth of the cases brought before local tribunals had been terminated by 1 August and decisions have tended to become increasingly lenient. In order to correct this situation McNarney contemplates sending out special American-German inspection teams to investigate the local tribunals in Bavaria, with a view to a possible "major organizational shake-up." Available evidence indicates that these inspection teams may find that the de-nazification program has become a vital issue in South German politics and that the failure of the Germans to measure up to AMG expectations is the result of complex considerations.

To a certain extent the slowness and leniency which have characterized the German administration of the de-nazification law in all three Laender of the US Zone are attributable to technical difficulties and to the democratic processes which the law reflects. The tribunals are composed of inexperienced laymen, the organization is fragmented into the smallest communities, the law requires a decision on the exact degree of guilt, and opportunities are provided for appeal and consideration of mitigating circumstances. Reports have also indicated considerable personal intimidation by pro-Nazi elements and a lurking fear in certain democratic quarters that the US occupation might not last long enough to protect them from Nazi revenge.

However important these factors may be, there is another element in the picture of an even more disquieting nature. As its full name indicates, the "Law for Liberation from National Socialism and Militarism" aims at far more than merely former members of the Nazi Party. The annex to the law contains a 20-page list of various auxiliary organizations and activities for connection with any one of which an individual may be brought before a purge chamber. The Bavarian Cabinet is reported to have estimated that two-thirds of the population are theoretically liable to prosecution under the law as it stands. Since conviction is punishable by confiscation of property and reduction of the guilty party to the status of "common labor," it has become evident that a thorough and sweeping application of the law would amount to a political and economic revolution which could only





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be carried out by a militant minority.

It is significant that the Communists in the US Zone have consistently pressed for precisely this type of de-nazification program, while the more conservative elements have become increasingly fearful that Communist influence would push the program to revolutionary proportions. This fear may explain why the South German religious groups, although daring to oppose Nazi ideology at the zenith of Hitler's power, are now inclined toward a restricted and lenient interpretation of the de-nazification law. While this inclination is shared by Protestant as well as Catholic elements, the extent to which parish priests have attempted to influence the program may be seen in the fact that Cardinal Faulhaber recently felt it necessary to forbid their issuing any more statements favorable to persons on trial before local tribunals.

This action may have been taken in response to the accusation by the Minister President of Bavaria that the Christian Social Union was making the de-nazification program a "party issue." Unless present trends are altered, the program may well become not merely a party issue but a decisive struggle between the Communists and the more conservative groups for the control of the South German economy and social structure.





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## Soviet Propaganda Stiffens

Soviet propaganda attacks on the US have grown increasingly uncompromising during the past month. Probably the most significant development in the anti-US line is the charge that "reactionary circles" who have long sought to dominate US policy are now achieving success. Previously American policy had been presented to the Soviet reader as the object of a contest between the rival forces of good and evil. Until recently the forces described as representing the interest of the people and the heritage of Roosevelt were at least holding their own and some hope was held out that the US might yet be persuaded to collaborate with the Soviet Union and other "freedom-loving people" in the cause of peace. Within the past two weeks, however, authoritative articles have appeared which assert that "reactionary monopolistic cliques" and "military adventurers" have actually gained a grip on US foreign policy and are using it to promote their plans for "world domination." The clear implication is that any lingering hope of real collaboration or mutual confidence must now yield to grim reality.

Other recent articles continue the attack on the Anglo-American "bloc." This combination is depicted as opposing legitimate Soviet policy in southeastern Europe, and "dividing the field" elsewhere by allowing the US to further its ambitions in Japan and China, while British "imperialism" roams at will through India and the Mediterranean. "Atomic diplomacy," US attempts to obtain bases, British policy in Palestine, and the transfer of British troops to Basra are presented to the Soviet reader as further ominous developments.

These and other evidences of hostility in current Soviet propaganda appear designed to serve both external and internal purposes. A show of intransigeance probably is calculated to support tough bargaining at Paris and embarrass the Western Powers. The increased animosity may also be aimed at those elements in the Soviet population who still cling to the hope that collaboration with the West is possible and serve as a signal that Soviet action in the future is to be completely unilateral. Thirdly the Soviets must use every means to check the post-war unrest and disillusionment which appear to have deeply affected the Soviet people. This can be partially met by depicting the outside world as so torn by strife and evil that the lot of the Soviet citizen seems enviable by comparison. Likewise, the threat of an alien enemy can be used as justification for the harsh internal conditions in the USSR.





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## Communists Approach North African Nationalists

The recent Soviet-inspired offer of an alliance by the Communists in North Africa to the Algerian Nationalist Party seems to be an expression of basic Leninist-Stalinist doctrine. This doctrine demands that Communists support any progressive colonial national liberation movement, provided that an independent Communist Party continues to operate outside such a movement. The North African Communists, therefore, are attempting primarily to exploit the nationalist aspirations of the native populations as a means of weakening French "imperialism." Any hope of gaining local political advantages for the Communist Party in the October elections seems to be only a secondary consideration. Support for the broader interpretation is offered by the apparently Communist-inspired creation of the Free Morocco Union -- an attempt to group together many of the different elements which favor an independent Morocco, including French businessmen and colonists irked by excessive government interference in their affairs. Moreover, the Communist Party in Tunisia appears to be taking similar steps to strengthen and support a nationalist movement in that colony.

The open support which the Communists in North Africa now are giving to native supporters of autonomy or independence significantly reflects the Kremlin's trend toward open non-cooperation with the Western Powers. Communist support of North African nationalist groups appears similarly to develop a basic Soviet Mediterranean strategy.





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## Calcutta Riots May Weaken Moslem League

The violent riots of the past week in Calcutta are expected to result in a drastic decline in the prestige and power of the Moslem League in India. The riots were a direct consequence of League-sponsored demonstrations against the British Cabinet Mission and the Congress Party.

The riots broke out on 16 August, a date set by the League as "Direct Action Day" for Moslem demonstrations against efforts of the British Cabinet Mission and the Congress Party to form an interim Government in which the Moslem League representation would be less than that of the Congress Party. The "direct action" was officially intended to involve only peaceful demonstrations but in fact set off the worst street fighting in Calcutta's history, in which over 1,500 persons were killed, an estimated 10,000 injured, and looting, arson and rape were widespread. The League-dominated Bengal Ministry, instead of taking precautions against possible violence, had declared a provincial holiday, so that no authorities were present to institute action when the riots began. The Bengal Prime Minister is moreover reported to have given moral and material support to the rioters, and impartial observers believe that several hundred Moslems were "imported" into Calcutta to participate. The riots are expected to deprive the League of the sympathy of the Viceroy as well as of political and non-political elements previously friendly to the League. The League Ministries in Bengal and Sind may well be dissolved.

In contrast with the League's loss of prestige, the Congress Party's position appears to be considerably strengthened. The Party has cooperated wholeheartedly with the British to ease the situation in Calcutta. Nehru is rushing the formation of a new national Government whose principal task will be to clean up Bengal, and the Viceroy already has approved a list of names submitted by Nehru. In order to stabilize the situation, it is expected that the new Cabinet, completely dominated by the Congress Party, will be announced shortly.





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South Korea's Susceptibility to Soviet Influence

Political and economic deterioration in the US zone in South Korea is increasing that area's susceptibility to Soviet influence. The USSR is intensifying its efforts to promote Korean dissatisfaction over the failure of American authorities to remedy the situation -- a failure due largely to Soviet or Soviet-inspired activities.

One year has passed since the liberation. In the absence of signs of progress toward independence, Korean morale is critically low. Failure of the Joint Commission to resume negotiations for the development of Korea as a political and economic entity, and the inability of the American authorities to establish democratic unity in South Korea have greatly disturbed Korean public opinion, and have encouraged a steady increase in anti-foreign sentiments. The effects, rather than the causes, of those failures are of greatest interest to the Korean people, who are highly excitable, impressionable, basically suspicious of foreign influence, and inclined to measure attempts to aid them in terms of immediate and superficial benefits. They tend to disregard such basic factors as Soviet opposition to any Joint Commission negotiations that would advance Korean independence along truly democratic lines, or the Soviet-inspired attempts of the South Korean Communists to sabotage US-sponsored measures to promote political unity in the US zone.

Serious economic difficulties, which will increase with the approach of winter, are contributing substantially to popular unrest in South Korea. The recent floods have created a serious food shortage, and the housing situation, already bad, has been made desperate by the influx of approximately 1,500,000 refugees. The food and housing problem has been further aggravated by the Soviet practice of pushing North Korean Japanese and recalcitrant Koreans across the 38° border. For the Soviet authorities, this practice has the dual advantage of increasing their own ability to feed and house the Koreans and their army in the Soviet zone, and adding to difficulties in the US zone. Stocks of Japanese goods and raw materials in South Korea are fast disappearing, with little hope in sight for substantial replenishment. The economic distress is intensified by increasing inflation.

With political and economic conditions in South Korea approaching a chaotic state, recent reports indicate that Soviet propaganda





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against the American effort in South Korea is gaining headway, and more and more Koreans are giving sympathetic ear to Communist demands for all foreigners to withdraw from their country. Waverers are tending to be driven into the Communist camp by the circulation of Soviet-inspired rumors that the US will withdraw within three years and that all elements that have "opposed the splendid efforts of the USSR to establish democracy in Korea" will then be purged.





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# SOVIET MILITARY POLICY IN EASTERN EUROPE

The Soviet Union is engaged in a systematic effort to consolidate its military influence in Eastern Europe before the European peace treaties are signed. This effort is an integral part of the larger policy of assuring the permanent political, economic and military orientation of that area toward the USSR. In particular it is designed to prevent any Eastern European country from becoming an accomplice to a future attack on the USSR, or providing an avenue of approach for a hostile army. Soviet authorities hope to achieve this end by organizing the armed forces of the Eastern European nations so that they can be swiftly integrated at any time into overall Soviet strategic plans -- defensive or offensive.

The eight nations in this Soviet sphere of influence (Yugoslavia, Albania, Bulgaria, Rumania, Hungary, Czechoslovakia, Poland and Finland) have a combined population of approximately 86,500,000. Their armies at present total slightly more than 1,000,000 men, a very large proportion of whom have had experience in wartime campaigns or partisan operations. However, with the exception of Czechoslovakia, which has extensive armament industries, they suffer from lack of modern equipment and have from the Soviet view-point serious shortcomings in organization, leadership and political reliability.

In their efforts to improve this situation the Soviets have distinguished between the nations which supported the United Nations and those which fought with the Axis. To the former (Yugoslavia, Albania, Czechoslovakia and Poland) the USSR is giving extensive military aid in the form of equipment, training, improvement of communications and general supervision of organization. In the latter (Bulgaria, Rumania, Hungary and Finland), Soviet policy is chiefly concerned with eliminating potential anti-Soviet elements and developing a well-organized cadre of thoroughly indoctrinated Communist personnel.

The present Yugoslav Army numbers about 300,000 men. It probably will not be expanded in the near future, but a steady improvement in organization and equipment is expected to continue under Soviet auspices. Last June the USSR concluded a military pact to furnish the Yugoslavs with undisclosed quantities of arms and equipment. Since





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early this year a Soviet military mission, with representatives in all parts of Yugoslavia and in all tactical units, has assisted in the training and reorganization of the Yugoslav Army. Meanwhile several hundred Yugoslav officers and specialists are being trained in the USSR. Road, rail and bridge construction for military purposes is being carried out in strategic areas by Soviet engineers or under their direction.

The Albanian Army, estimated at 100,000 men, is closely affiliated with that of Yugoslavia. An estimated 1,500 Soviet troops are supervising the construction of roads and coastal fortifications in Albania, and key Albanian Army officers are studying in the USSR.

The Czechoslovak Army of about 140,000 men apparently is being enlarged. After the conclusion of hostilities in Europe Soviet authorities undertook to equip some nine Czechoslovak divisions. In the military accord recently reached in Moscow they agreed to furnish on long-term credits additional equipment, possibly for as many as ten additional divisions. These agreements will serve the double purpose of standardizing Czechoslovak military equipment on Soviet lines and allowing part of Czechoslovakia's large armaments industry to be diverted to civilian production. Czechoslovak officers are receiving advanced training in Soviet military schools, and the Czechoslovak internal security force is controlled by Soviet officers. On the other hand, the trend toward Communist domination of the Czechoslovak Army has been slow.

The Polish Army is presently estimated at 215,000 and Polish authorities have indicated their intention of enlarging it with Soviet aid to 500,000 in the near future. Although the Army is headed nominally by a Polish Marshal, all important decisions are made by a Soviet General. Many key posts are held by Soviet officers, and the supply and transportation system is in Soviet hands. Virtually all weapons and equipment are Soviet-supplied, and new equipment is to be furnished by the USSR on a long-term credit basis.

The Bulgarian Army, now approximately 65,000, will probably be reduced under the peace terms to a maximum of 55,000. Relatively little material has been given the Bulgarian Army, although a small





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number of Bulgarian officers are being trained in the USSR. In anticipation of the withdrawal of Soviet troops 90 days after the Bulgarian peace treaty becomes effective, the Soviet authorities have instigated a drastic purge of all Bulgarian officers not in sympathy with Communist ideology. The primary Soviet aim appears to be the establishment of a Communist cadre which will bolster the pro-Soviet Bulgarian regime after the withdrawal of Soviet forces.

The Rumanian Army of 140,000 men will probably be reduced by the peace treaty to 120,000. Soviet military aid has consisted chiefly in the training and equipping of two complete divisions which constitute the bulk of the Army's tactical striking forces. In the remainder of the Army there has been less progress than in Bulgaria toward the establishment of a Communist-indoctrinated cadre.

While Hungarian authorities have offered strong resistance to Soviet penetration and control, a Communist has been installed as Chief of the General Staff and other important posts are held by Communist sympathizers. The draft peace treaty allows Hungary an army of 65,000, but her military strength will be determined by the degree of future Communist pressure, which aims to keep the Army small and the leftist-dominated internal police force large.

Soviet policy has been to keep the Finnish Army small and impotent. Repeated purges under Soviet pressure have curtailed its efficiency, and under the draft peace treaty the Army is to be limited to 41,500 men. However, Communist attempts to penetrate the Army have met with determined Finnish resistance.

Despite varying degrees of unrest and resistance to Soviet domination among the Eastern European countries, it is expected that when the present draft peace treaties are concluded, the entire western border of the USSR will be effectively flanked by a Soviet-controlled military bloc.





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## THE DALAT AND MALINO CONFERENCES

The recent conferences at Dalat and Malino have pointed up the similarities and differences between the French and Dutch policies in Southeast Asia. Both France and The Netherlands, under the guise of legality and conformity to native demands, have attempted to isolate the spearheads of native independence movements and thereby achieve the ultimate salvage of as much of their colonial empires as possible. The Dutch are relying upon diplomatic negotiation as their fundamental weapon in this attempt, while the basic element in French policy has been the concentration of a powerful military force to effect the desired separation of Cochin China from Viet Nam.

Both France and The Netherlands have progressively strengthened their position vis-a-vis Viet Nam and the Indonesian Republic respectively during the recent months. Both metropolitan powers have time on their side in military as well as in economic terms. Their principal negotiations with the major nationalist oppositions have reached a point bordering on impasse, and they are now engaged in building up the more docile and smaller native groups into nuclei for the federations which they propose to set up in Indochina and Indonesia. The Dalat and Malino Conferences, in which this process is initiated, are to be followed by eventual major conferences which will embrace all native groups and settle federal questions. France and The Netherlands are both presenting the core of the nationalist resistance with faits accomplis, and at the same time are receding from strict compliance with earlier understandings with nationalist leaders in Viet Nam and Java.

The Dalat and Malino Conferences also reveal significant differences in application of strategy. Possibly because of their limited military forces, the Dutch have undertaken by diplomatic means to win over the natives in the outlying regions and to isolate the Indonesian nationalists on Java. In contrast, the French in Indochina, with an army almost double its pre-war strength, have set up the territory of Cochin China as an independent state despite vigorous objections by Viet Nam's nationalists who claim the area is essential to their own economic livelihood. In the Dalat Conference the French further sought to



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strengthen their puppet regime in Cochin China for use as one of the key participants in a prospective Indochinese Federation under French domination.

The Malino Conference is certain to increase the prestige of Van Mook, the Dutch negotiator in the N.E.I., who has skillfully steered a middle course between the Indonesian nationalists and the Dutch reactionaries. Van Mook now is optimistic over prospects of a collapse of the "Republic" and a consequent extension of the Malino Conference to include Java and Sumatra.

The French colonial officials who conducted the Dalat Conference, on the other hand, may be repudiated by their own Government because of the extreme anti-Viet Nam tactics which they employed. These colonial negotiators did not invite Viet Nam to the Conference and failed to provide for a referendum in Cochin China on separation. These actions have aroused severe criticism in Indochina. Moreover such an uncompromising policy toward Viet Nam does not wholly accord with the concurrent efforts of French Foreign Office officials at Fontainebleau to negotiate the implementation of the March agreement, by which France had gained through non-military measures a foothold in northern Indochina. While France will obviously seek to pursue a separation policy for Cochin China in order to prevent Viet Nam's domination of Indochina, it must do so without violently antagonizing Viet Nam, for such an eventuality would only necessitate a protracted campaign of occupation and suppression.





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## COMMUNISM IN CUBA

The Cuban Communist party, organized in 1925 and now known as the Popular Socialist Party (Partido Socialista Popular), has developed in Cuba one of the four strongest centers of Communist activity in the Western Hemisphere. Although the party numbers only slightly more than 150,000 voters out of an electorate of over two million, its relative strength, like Communist parties in many other countries, is far greater than numbers alone would indicate. In numerical strength it surpasses the Communist party of Chile whose voting strength is close to fifty thousand, the Communist Party of Mexico which was unable to secure ten thousand signatures to a petition nominating a Communist candidate for the recent elections, and the Communist party of Uruguay which polled fifteen thousand votes in the most recent (1942) elections.

Cuba, like many Latin American countries, has a number of disunited parties, and the Communists with typical discipline and tactical ability are able to bring strong pressure to bear on the Cuban Government. Although Communist Congressional representation consists of only 3 out of 54 Senators and 7 out of 125 Representatives, it has been able to gain the positions of First Vice President of the Cuban Senate and First Vice President of the House of Representatives. In 1943 the Communists obtained the appointment of party leader Juan Marinello as Minister without Portfolio in the cabinet of the then President Batista.

The Communists control the leftist Confederation of Cuban Workers (Confederacion de Trabajadores de Cuba, or CTC), even though members of President Ramon Grau San Martin's "Autentico" party represent a strong opposition and hold many key positions in the Confederation. The CTC represents some 500,000 workers and comprises almost all organized labor in Cuba. It is affiliated with the Confederation of Latin American Workers (CTAL -- see Weekly Summary of 2 August 1946). Lazaro Pena, a Communist deputy in Congress and head of the CTC, is a member of the Central Committee of the CTAL.





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Although the Communists were opposed to the election of President Grau and originally formed part of the opposition bloc in the legislature, they have since late 1944 operated under an informal compromise which has permitted cooperation on certain specific issues. Despite their opposition to the basic philosophies of Communism, the "Autenticos" have distinct leftist leanings and have been forced to rely on Communist assistance at times to weaken the opposition in the legislature. The Communists nevertheless have maintained an independent position, claiming credit for themselves whenever the collaboration with the "Autenticos" has resulted in popular measures and disclaiming responsibility where the collaboration has resulted in failure. This cooperation temporarily strengthened President Grau's political position but has increased Communist prestige and influence. Some of the Government's present difficulties in maintaining order may be Communist-instigated. The current wave of extortion-murders, which is causing a number of prominent business and political leaders to flee to the United States, has been ascribed by some political observers to Communist inspiration.

The Communist position on both domestic and international questions frequently is opposed to US interests. The US, which normally absorbs about eighty percent of Cuban exports, is dependent upon Cuba for the major portion of its sugar requirements and has spent large sums in recent years to develop Cuban production of manganese, chromium and nickel. The Communists and the Workers' Confederation, however, have declared their opposition to "American Imperialism" and have advocated the nationalization of the sugar mills, over a third of which are owned by US interests. The sugar industry is currently operating under a program directed by the Cuban Government but the individual units are still independent, and in the opinion of US observers would suffer in efficiency if they were nationalized. The Communists and the Workers' Confederation also have advocated the expropriation of such other foreign investments as mines and railways.

In the international field, the Cuban Communists have consistently supported the foreign policy of the USSR and currently are attacking the position of the US in the Paris peace conference. They have also assailed as "imperialistic" US efforts to standardize Western Hemisphere defense systems.





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The Communists in Cuba have developed a propaganda organization with a wide influence in Latin America. The organization includes a daily newspaper, radio station, three magazines, a publishing house and a number of book stores. Its publications circulate as far as Uruguay and Argentina. The radio station is a powerful voice throughout the Caribbean area. Moreover, Cuba has been the headquarters for large-scale Communist undercover activities. The Communists exiled from the Dominican Republic have been aided by the Cuban Communists, Spanish Communists until 1945 maintained a strong organization in Cuba for the collection of information about events in Spain, and several Communist-front organizations were instrumental in bringing in large numbers of refugees from Europe and assisting them to find work or migrate, sometimes illegally, to neighboring countries.

Since the Soviets opened their Legation in Havana on 9 April 1943, the Communists have had the benefit of advice and guidance from Soviet officials. The Legation has maintained close supervision over the propaganda and undercover organizations furnishing films, news material and funds, and prominent Cuban and refugee Communists have been in frequent consultation with representatives of the Legation. Despite its minority status, the strength, discipline and influence of the Cuban Communist party give it substantial capabilities. In the event of any threat to US security, secure access to Cuban sugar and minerals would be of prime importance to the US. The Communist party, through its political position and its influence over Cuban labor, would be in a position to curtail the production or delay the transportation of those materials. The undercover organizations already established demonstrate Cuba's potentialities as a base for espionage or other clandestine work directed against the US.





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# WEEKLY SUMMARY

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## Iceland's Dilemma in the Base Issue

Iceland's Prime Minister Thors has finally abandoned his stalling tactics and has suggested a procedure for active prosecution of the base negotiations. While his proposals disregard long-term US requirements, they might lead to short-term transit rights for US military aircraft and a tenuous foothold that might be subject to later expansion.

This development represents an attempt by Thors to extricate his country from a serious international dilemma and himself from a domestic political predicament. The proposals attempt to steer a precarious middle course between the obvious alternatives of antagonizing the US or the USSR. Thors apparently intends to concede just enough to induce US acceptance and hopes by sharply limiting US rights to overcome local Communist opposition and thereby forestall open Soviet resentment.

Unless the negotiations continue and agreement is reached, Thors is faced with one of two awkward domestic alternatives. He must either comply with his commitment to the Parliament and publicly demand a US withdrawal or organize opposition to such a step. The first course would make him appear a Soviet tool and the second, a leader "who did not dare speak up to the Americans." In the delicately balanced Icelandic political situation either course would probably lead to his eclipse. By attempting to maneuver for US initiative in the abrogation of the 1941 agreement, Thors clearly is seeking to fulfill his pledge to the Althing without publicly offending the US.

## Communist Domination of the CGT May Weaken

The nationwide two-day "wildcat" strike of the large Post, Telegraph, and Telephone Federation (PTT), which resulted in a complete victory for the workers, may have major repercussions within the French labor movement and may foreshadow a reduction in Communist political power in France. The strike was called by an unofficial strike committee in defiance of instructions from the PTT's Communist leadership, and won the support of PTT rank and file throughout





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# SPECIAL ARTICLES

1. China Crisis Grows More Acute
2. Issues in the Greek Plebiscite
3. UN Membership Problem



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## Soviet Proposal for Revision of Straits Convention

The Soviet note to Turkey proposing revision of the Montreux Convention is in part similar to last November's US and UK proposals. The Soviet note differs from those of the US and UK in urging restriction of responsibility for the Straits to "Black Sea powers" and joint Soviet-Turkish organization of Straits defense. The Turks appear certain to reject these Soviet proposals, which they regard as aimed at establishing Soviet bases in the Straits. In their rejection they can presumably rely upon US and UK support, and are in fact citing their 1939 treaty with the UK as the basis of their Straits policy.

The Soviet proposals have not surprised the Turks, who had late in July expressed fear of a surprise attack in case Soviet diplomatic methods proved unsuccessful, and had been reported fortifying the Straits (under a British plan) for a last-ditch stand. The Turks recently have conducted their first national election in many years and appear to have maintained national unity despite the vigorous showing of the opposition Democrat Party and the subsequent formation of a new "tough" Cabinet to deal with opposition elements. All Turkish factions, including the Democrats, have united in assailing the Soviet proposals and are expected to manifest their traditional stubbornness in the face of a threat from the North. The Turkish Premier has indicated that he will discuss the "reasonable" elements in the Soviet note but will refuse to consider those items which threaten Turkish sovereignty.

Soviet policy toward Turkey, as expressed in the revision note, aims at virtual control over the Black Sea Straits; the fundamental Soviet objective is the establishment of a "friendly" government in Turkey as well as in the other countries of the Middle East. These aims spring from a combination of strategic and political factors. Soviet security requirements from the Baltic to the Black Sea are at least temporarily fulfilled except for extension of control over Turkey. The Kremlin may, however, regard the Caucasus oil fields and the newly-developed industrial centers east of the Urals as vulnerable from the South. Moscow has long coveted the warm-water ports and rich oil deposits of the Black Sea-Persian Gulf area. The Soviet Union hopes for positions which could threaten the British "life line" and





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British strategic oil fields. Soviet dominance of Turkey would establish the USSR on the threshold of Arab territories which offer a fertile field for political and economic intrigue.

It appears unlikely that the Kremlin will follow up its note to Turkey with a resort to armed force, although such a possibility cannot be ignored in view of Zhukov's presence in Odessa and rumors of military and naval activity in that area. There seems to be no evidence to support rumors of a possible Soviet-supported offensive from Bulgaria, since Red Army strength in that country is estimated to have been cut from 155,000 in May to 80,000 in July. The Soviet Union already is extended in Eastern Europe and may decide to forego further expansion until its control over the satellite states can be more thoroughly consolidated. An attack now not only would destroy the UN (which still can be useful to the Kremlin), but would reveal too clearly the true responsibility for such destruction. The USSR probably has once again presented extreme demands in the hope of attaining a somewhat more limited objective.





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France despite active Communist opposition. The strike committee now plans to call a national PTT congress in which it hopes to discredit the already bewildered leaders of the Federation.

These developments represent a break in the tight discipline which Communist leaders have exerted over most major trade unions since the liberation. This break indicates a rift which may run deep in the ranks of French labor. Labor rank and file have been increasingly restive at their leaders' failure to strive for wage increases that will match mounting living costs. Resentment is presently simmering in several other large Federations. The suspicion that the Communist leaders are using organized labor as a political tool (the thesis of important non-Communist labor leaders) may spread sufficiently to weaken the Party's domination of the General Confederation of Labor, which the Communists hitherto have been able to exploit as one of their most powerful political weapons.

## Bulgarian Government Prepares for Elections

The Communist-controlled Government of Bulgaria is rapidly completing its preparations for the national referendum on 8 September and the election of a constituent Grand National Assembly on 27 October. Since no important political group in the Government or opposition favors retention of the Monarchy, the referendum will result in the choice of a republic and will represent a true expression of the national will.

Despite assurances to the US that the elections will be free, it is clear that actually they will reflect the wishes of only a small minority of the population. The opposition parties will be unable to offer any serious threat to the Government. Prominent opposition leaders are now scheduled for trial as "traitors" and "Fascists," while lesser leaders and the opposition rank and file have been subjected to increasing terrorism. The recent compulsory labor law, authorizing the mobilization of all persons not engaged in "useful social activity," is directed against all opponents of the regime, particularly the well-to-do, who are characterized as "agents of the foreign powers." The purge of the Bulgarian Army, formerly regarded as the chief obstacle to complete Communist domination of the country, has culminated in extended "sick leave" for War





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Minister Veltchev and the dismissal of about half of the officer corps. Many of the latter are scheduled for political trials. The officer corps thus has been reduced to a "hard core" of Government and Communist supporters and the regime has been relieved of the danger of a military coup.

Despite its effective suppression of the opposition, the Government during the coming weeks will probably make a major effort to dissuade its opponents from boycotting the elections. The Government apparently feels that opposition participation in the voting will make it difficult for the US or UK to question the legality of the results. The opposition's only remaining weapon thus appears to be its ability to prevent such a fraudulent appearance of national unity.





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## CHINA CRISIS GROWS MORE ACUTE

The Generalissimo's 14 August statement further reduces the possibility of a compromise settlement with the Chinese Communists and will have the effect of dividing China even more rigidly into two hostile camps.

Four days earlier General Marshall and Ambassador Stuart had stated that, despite the desire of both Government and Communist leaders to end the fighting, it appeared impossible for the parties to reach a settlement of two principal issues: -- the redisposition of troops and the character of the local governments to be maintained in areas from which troops are withdrawn. It is clear from the Generalissimo's statement and from the pattern of recent military campaigns, that the Government is determined, through negotiation or force, to remove Communist troops from the major communication lines of Central and North China. The Communists will not give up this strategic bargaining position before a general settlement which assures their continued political control over areas from which they are asked to withdraw troops.

The Marshall-Stuart statement indicated that the area of unresolved difference was narrow; but the Generalissimo, by bringing up the whole range of issues that have been contested during the past year, shattered hopes for resolving these immediate issues. He repeatedly blamed the Communists for China's ills since the end of the war and declared the Government's intention to proceed unilaterally with political reforms which, under the 10 January agreement, were subject to negotiations between all political parties. Particularly sharp were the Generalissimo's demands that, as the implicit condition for continued observance of the 10 January truce agreement, the Communists withdraw from areas where "they threaten peace and obstruct communications"; and the declaration that the Government will continue to use political means to settle political problems "only if the Communists give assurance and evidence" that they will carry out truce agreements, restore communications, respect decisions of Executive Headquarters, and integrate their army into the National Army. The Communist reaction to the Generalissimo's speech was that it spelled war.





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Within the past week the Communists have markedly changed their attitude toward American mediation. Although hitherto disposed to accept General Marshall's efforts, they have recently questioned his impartiality by identifying him with US "reactionary elements." They now appear to favor placing the China problem before the signatories of the Moscow Declaration or the United Nations.

The Generalissimo's major policy statement and the new Communist attitude toward General Marshall give a clue to probable developments in China during the coming months. There will be (1) a widening of the scope of civil conflict, but not necessarily all-out civil war; (2) the practical termination of negotiations on the crucial military and political issues; (3) the institution of unilateral, though minor, political reforms in the Central Government area, with the lesser parties and independents having no important influence since they will be supplicants rather than mediators.

With the spread of hostilities, the military picture in Central and North China promises to be one of alternating and shifting areas of control over communications lines. The most active theater of conflict will probably lie in the eastern provinces north of the Yangtze, where the Nationalists are reported to have committed 600,000 or more troops. While the Nationalists can be expected to extend their holdings in the eastern theater, they will continue to be harassed by Communist guerilla assaults on the major rail lines, and will probably have greater difficulty in opening up Communist-held areas farther inland. The prospect of a rapid Nationalist success, even in the limited objectives of clearing communication lines, is doubtful; and if these campaigns are protracted, they will greatly retard China's economic recovery even in areas firmly under Central Government control.

In view of the changed Communist attitude toward US mediation, an intensification of hostilities probably will throw the entire Chinese question into the field of international debate. In that event, considering the recent heightening of Soviet interest in the Chinese crisis, the USSR may be expected to exert strong pressure in favor of the Chinese Communists. (The Soviet press in recent weeks has launched vigorous attacks against US interference in support of "the criminal plans of Chinese reactionaries," a propaganda line which exactly parallels that of the CCP.)





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The shadow of direct Soviet intervention in the Chinese civil conflict also looms as a threat to Central Government hopes of establishing complete control throughout China. The role which the Soviet Union elects to play, either by intervention or in international debate, may become a decisive factor in Chinese developments during the second post-war year.





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## ISSUES IN THE GREEK PLEBISCITE

With the approach of the 1 September Greek plebiscite on the return of the King, extreme tension has developed between the pro-Royalist Government and leftist groups. In Greece, as in Iran, the domestic conflict is intensified by the strong interest which Britain and the USSR have taken in the country's internal affairs.

Greece has been traditionally regarded as a British sphere of influence. Since the liberation of the country in 1944 all Greek Governments have relied heavily on the British for diplomatic and military support. Greek leftists, particularly the Communist-dominated EAM, have sought at least moral support from the USSR, which vehemently opposes any conservative, anti-Communist regime in an area flanking the Soviet sphere of influence in the Balkans.

The present Greek Government was formed by the (Royalist) Populist Party following the elections of 31 March 1946 which produced a Royalist victory largely because of popular resentment over previous Communist excesses. However, the new Government has aroused increasing opposition, even among moderate and conservative non-Royalists, by its drastic efforts to ensure the restoration of the King and to establish authoritarian control of the country.

One of the first steps of the new Government was to set for 1 September 1946 the plebiscite on the return of the King, although the previous Greek Government had agreed that the plebiscite would not be held until 1948. The leftist and moderate opposition elements claim that the new plebiscite date does not allow time for adequate revision of the electoral rolls. (The Allied Mission for Observation of the Greek Elections on 31 March recommended that a new census be taken before the Greek people should again be asked to vote.) The opposition also claims that there will be widespread intimidation of the electorate by rightist groups, and that the present Greek Interior Minister's role in the "staged" plebiscite of 1935 augurs ill for the legitimacy of the coming vote. The plebiscite ballots are designed to avoid the possibility of a vote against the Monarchy by restricting the choice to the return of King George or the continuation of the Regency. The ballots will bear only the name of the King and a blank space.





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Royalist leaders have consistently maintained that Greece is endangered not only by leftist groups within the country but also by the Communist-dominated countries to the north. They assert that Greek Communists and their sympathizers are prepared to cooperate with the country's potential enemies who allegedly seek to annex territory along the northern border. On the basis of this threat the Government has dispatched an estimated three battalions to quell leftist bands in northern Greece. Severe security legislation has been enacted establishing summary courts (whose decisions may not be appealed and must be executed immediately), and permitting imprisonment indefinitely without trial. On the other hand courts to try Greek quislings have been discontinued, and former members of the collaborationist Security Battalions are expected to receive equal rights with personnel who served during the war with the regular Greek Armed Forces.

Considerable power has been concentrated in the hands of the Royalist Minister of Defense, Mavromikhalis. Both British and US officials in Greece believe that Mavromikhalis is seeking to establish himself in a position under the King similar to that of former dictator Metaxas. Mavromikhalis, with the acquiescence of British military authorities, has reorganized the Greek General Staff; its membership is now predominantly Royalist. The Air Force, formerly regarded as the most leftist of the three defense arms, is now headed by a former member of Greek puppet governments under the Axis occupation. The Navy has been put under the direct charge of Mavromikhalis. The security services have been given a more strongly Royalist character by the appointment of officials prominent in the Metaxas regime.

The present Government has lost support even among its own followers, largely because of the ambitions and mutual distrust of the Royalist leaders. The Government's recent tendency to consider all non-Royalists as Communists or unwitting Communist tools, has further alienated certain moderate and conservative groups. A continued growth of opposition discontent, or a crisis in the country's precarious economic position, might therefore result in a broadening of the Government and possibly in postponement of the plebiscite. Such developments will depend primarily upon the position taken by British officials in Greece who have hitherto supported the rightist position.





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Present indications are that the Government will continue in power and the plebiscite will be held as scheduled. Whether or not the King returns, it is likely that a strongly authoritarian government will be maintained and that continued suppression of opposition groups will provoke further resistance -- a situation which the Soviets may be expected to exploit to the embarrassment of the Western Powers.



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## THE UN MEMBERSHIP PROBLEM

Recent discussions in the Membership Committee of the Security Council have indicated that the admission of new members to the UN will be decided more by bargaining among the Big Three than by the qualifications of the applicants under Article 4 of the Charter. Although the US has consistently endeavored to prevent the UN membership question from descending to the "horse-trading" level, the policies of the USSR and, to a lesser extent, of the UK have now made outright bargaining almost unavoidable.

Since the beginning of the membership discussions several months ago, the Soviets have insisted that the Western Powers must approve the admission of Albania and the Mongolian People's Republic before the USSR would commit itself on any other candidates, however eligible they might be under Article 4 (providing for the admission of "peace-loving states" which accept the obligations of the Charter and, "in the judgment of the Organization, are able and willing" to carry them out). Gromyko made it plain several weeks ago that the Soviets were setting a minimum "price" which had to be paid for Soviet approval of the admission of any state which the Communists do not control.

The UK, while sharing the US aversion to bargaining with the Soviets on the admission of such qualified neutrals as Sweden, Portugal, Iceland, Eire and Afghanistan, indicated that it might not be averse to pushing the candidacy of such British favorites as Nepal, Muscat, Yemen and Transjordan. Despite the US feeling that such applications would be "premature" at this session of the Membership Committee, Transjordan was subsequently permitted to apply. Since a Soviet veto for this British satellite was a foregone conclusion, the move may have been made with the ulterior purpose of provoking a Soviet veto of an Arab state.

The preliminary round of discussions in the Membership Committee has now terminated in the not unexpected impasse. The Soviet delegate opposed Transjordan, Eire, Siam and Portugal, while the British threatened a veto of Albania and Mongolia. In certain of these cases France, China and Poland also indicated negative votes which probably might be averted if the Big Three could reach agreement.





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In order to break this deadlock the US has proposed on a basis of reciprocity to approve the entire list of candidates, but the outcome of this proposal is still uncertain. The British delegate has no instructions to yield on Albania and Mongolia and he feels that the odds are "100 to 1" that the Soviets will not accept the US compromise. On 15 August Gromyko indicated that the Soviet opposition to Portugal, Transjordan, Eire and Siam is "a fixed one," but his reiterated references to Albania and Mongolia suggest that he may still be holding out in the hope of influencing the US (and presumably the UK) attitude.

The Netherlands delegation considers the US proposal "dangerous but inevitable" and shares the general fear that the Soviets may subsequently raise their "price" and may demand, in return for the eventual admission of Italy and Austria, the admission not only of Finland, Rumania, Hungary and Bulgaria but also of additional Soviet Republics.

On the other hand, any Big Power veto of a present candidate for UN membership may strengthen the determination of the smaller nations to renew their attacks upon the veto privilege, particularly if it appears that the veto resulted from unsuccessful bargaining among the Big Three. Such an outcome of the membership problem would widen the breach between the Soviet bloc and the rest of the world and would seriously jeopardize the prestige of the UN.





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## Portuguese Reject US Terms for Azores Bases

On 5 August the Portuguese rejected the latest US proposals for long-term US rights at Azores bases and presented counter-proposals which offer virtually no promise of meeting US requirements.

Portuguese thinking still is couched in terms of an eventual war between the Anglo-Saxon powers and the USSR. The fundamental Portuguese objective is to secure now the maximum insurance against the effects of such a war. To that end Portugal seeks a US guarantee of full US military protection in the event of hostilities. (The Portuguese appear to have rejected a more limited guarantee by which the US would undertake to invoke UN action in the event of aggression against Portugal.) Subsidiary Portuguese objectives are to build up Portugal's Air Force with US and British aid and to derive the maximum commercial benefits from modern airfields in the Azores.

The military rights which Portugal now proposes to offer in return are very limited. In peace-time the US would be permitted only to maintain members on a mixed commission, which would occasionally inspect the bases and make recommendations for the maintenance of efficiency. The US would be entitled to put military forces in the bases only after the outbreak of war and, possibly, only if the US and UK were involved as allies of Portugal.

The Portuguese clearly wish to keep the door open for some sort of US Azores base agreement and will probably make some minor adjustments in their terms. But they appear content to move very slowly pending clarification of small-nation applications to the UN and of the peace treaty issues. They are unlikely to make important concessions in the near future toward an Azores base agreement satisfactory to the US.

## Icelandic Opposition to US Bases

Icelandic opposition to US base proposals continue to harden. The Prime Minister, Olafur Thors, has informed US negotiators that he believes the prospects for any agreement are poor and has again attempted to explore the US attitude toward an Icelandic denunciation of the 1941 agree-





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ment with the US and a request for immediate evacuation of US troops. He also has raised the question whether the US could not obtain its military ends in Iceland by obtaining a mandate from the Security Council.

The Icelandic attitude stems partly from misinformation on the scope of the proposed bases, and partly from national sensitivity to foreign influence. That sensitivity has been skillfully exploited by the Icelandic Communists, who pose as the guardians of Icelandic sovereignty. In addition, it appears probable that advantageous trade agreements with the USSR have created "silver bullets" which are more persuasive than US appeals to "long-range interests." Icelanders undoubtedly fear that the maintenance of US military installations on their territory must inevitably expose the country to attack in the event of war.

## Pressures Increase in Iran

As the Iranian election approaches, the struggle between Soviet, British and Iranian national aspirations becomes sharper. The British in the South are combining a show of force with promises of economic amelioration; the Soviet-supported Azerbaijan regime still resists any real extension of control from Tehran; and Qavam continues his struggle to absorb the Tudeh Party and achieve independence of both the USSR and UK.

The British replacement of service troops by a brigade of "picked veterans" at Basra, close to Abadan across the Iraq-Iran border, is explicitly in preparation for active operations, should they become necessary to protect British lives and oil properties in southern Iran. The replacement follows the show of force in sending two men-of-war to waters off Abadan during the recent strike and the organization of the local Arab tribes into a "Democrat and Arab Union" to counter the influence of the Tudeh Party upon the oil workers. At the same time, the British Government has released a statement intimating that it regards "Persian oil" as vital to Great Britain's and the world's well-being and is determined that its flow shall not be interrupted. The statement further contends that the Anglo-Iranian Oil Company's labor policy is actually "progressive" and that the Government will assist the Company's social welfare program in every way possible. It seems likely that both elements in the British policy are designed to confirm their willingness to go along with the platform of





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orderly reform proclaimed by Qavam's new party and to affirm their active interest in Iranian affairs.

In northern Iran, on the other hand, the Soviet-supported Azerbaijan regime maintains its resistance to any significant extension of the Central Government's control. The Iranian gendarmerie under Schwarzkopf has been unable to gain control of its Azerbaijan counterpart because of the latter's insistence on practical autonomy. The Iranian Army has experienced a similar difficulty with the Azerbaijan "Army." The Azerbaijan regime has yet to fulfil its pledge to Qavam to withdraw from Khamseh province, immediately to the south of Azerbaijan proper. Soviet control of Azerbaijan appears to be as firm as ever.

Between the Soviet and British millstones Qavam carries on his effort to achieve a virtual one-party control under his newly-formed "Democrats of Iran." His suddenly-formed new Cabinet, which he presented to the Shah on 1 August, includes three Tudeh Party members, including Iskanderi, Tudeh Party secretary, and apparently realizes a plan of two months' standing. By this maneuver Qavam hopes to secure control of the Tudeh Party by absorbing it into his own party. He has underlined his intention of advancing Iran's national cause by forbidding any contacts between Iranians and foreign Embassies, a regulation which is not expected to interfere with the standard "back-door channels" of the British and Soviet agents but is an obstacle to the open procedures followed by US officials.

One experienced US observer in Iran believes that the political evolution from the Tudeh Party's formation to Qavam's present policies parallels the earlier development in Azerbaijan and will, as in that province, result inevitably in full Soviet domination of the whole country. On the other hand, the two-year extension of the Schwarzkopf gendarmerie mission and the relative remoteness of direct Soviet military forces afford Qavam strength which his Azerbaijan counterparts lacked. His present dominance is evidenced by his personal retention of the Ministries of Foreign Affairs, War and Interior. Despite official British protests, he appears able to count on British support. He has a genuine, if precarious, advantage in his control of provincial political machinery to lay the groundwork for a clear-cut election victory over the Tudeh Party.





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Soviet Attempts to Control Austrian Economy

The Austrian Parliament's recent vote nationalizing certain basic industries has become a focal point in the struggle for the economic control of Austria. Although the nationalization bill was supported by the Austrian Communist Party and obviously conformed to communist theory, the Soviets have strongly protested its application to the German-owned properties in the Soviet zone which they have sequestered as reparations under the Potsdam accord. The Soviets have obviously taken this stand because they have been unable, as in the Balkan countries and in Poland, to set up a Communist-controlled government and must therefore rely upon direct ownership and operation of industry to maintain their influence in the country. The nationalization bill, on the other hand, was supported even by conservative Austrian business interests as a measure of last resort to retain for Austria control of some of her most vital industries, and the Government is insisting that it apply to Soviet-sequestered properties.

The bill was passed on 26 July and, under the terms of the new Control Agreement, will go into effect 31 days after it reaches the Control Council, unless unanimously vetoed by the occupying powers. The Soviets, therefore, cannot unilaterally prevent its ratification. They can, however, to a large extent prevent its application to German assets in their zone by physically removing such assets before the Government bill can go into effect.

The outcome of the issue at the moment remains in doubt. The US does not contest the right of the Austrian Government to nationalize property in Austria, but has taken the position that it will not approve the bill unless nationalization is applied equally throughout all zones. In conjunction with the British it has also attempted to bring up in the Control Council a consideration of the definition of German assets as a prerequisite to the discussion of nationalization. The Soviets have refused to discuss the definition of German assets, adhering to their previous position that the Potsdam agreement permitted them to determine this question unilaterally. It appears likely that both the Soviets and the Western powers will hold substantially to their respective positions. In this event all four powers will probably join in tabling the measure until after the signing of the peace treaty. The Soviets will therefore again have avoided submitting the definition of German assets to quadrilateral consideration and will be left well entrenched in the Austrian economy.





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French Compromise Wage-Price Settlement

The current French compromise settlement of the wage-price issue satisfies no one, and is likely to be only temporary.

The settlement follows a month of negotiations between Government, labor and management representatives. It calls for pay increases averaging about 18% for privately employed wage-earners and 25% for civil servants, and provides for broad and somewhat indefinite economic reforms designed to forestall inflation. The pay increase for private industry is 7% less than that sought by the General Confederation of Labor (CGT), but 3% above the minimum which the Communists demanded on 24 June as a condition of their participation in the Government. Bidault's Government had contended that an overall average of 15% was the maximum allowable wage increase.

The CGT has not yet formally approved the settlement, and labor generally is divided over the basis on which the pay increases are to be calculated. Confusion and discontent are present in all classes of the population. Meanwhile inflationary pressures already have affected prices, which are expected to advance generally, and there is danger of an unstabilized franc.

Bidault's MRP Party may anticipate that, if the present settlement succeeds in temporarily averting serious labor troubles, the expected bountiful harvest and improved industrial production (especially of consumer's goods) will tend to restore public morale and contribute to the Party's prestige. Certainly all parties, between now and the fall elections, will try to capitalize on economic developments. It is likely that a statesmanlike approach to the issue of French economic rehabilitation will be overshadowed by political maneuver until after the election of a permanent Assembly in October.

French Policy in Indochina

The French appear to be trying to isolate their most energetic native opponents in Indochina in a fashion similar to that followed by the Dutch at the Malino Conference for Indonesia. While French and Viet Nam representatives negotiated at Fontainebleau on Viet Nam's status in the





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prospective Indochina Federation, the French convoked a separate conference on Indochinese problems at Dalat in southern Annam on 1 August. Representatives from all Indochina, except Viet Nam, were invited to discuss questions relating to the status of the Indochina Federation within the framework of the French Union.

Viet Nam authorities reacted to their exclusion from the Dalat Conference by abruptly suspending the Fontainebleau Conference. While the French claimed that the Dalat Conference was merely a preparatory meeting, Viet Nam officials charged them with utilizing the absence of Viet Nam leaders to establish their own Indochina Federation excluding Viet Nam and obstructing Viet Nam's efforts to absorb Cochin-China which is regarded as necessary to Viet Nam economic well-being.

The recent policies of the French Commissioner for Cochin-China, M. Cedille, have tended to perpetuate the separation of Cochin-China from Viet Nam and are attacked by Viet Nam as violations of the Franco-Viet Nam Agreement of 6 March 1945 providing for a referendum in Cochin-China on the question of joining Viet Nam. Reports on the Dalat Conference indicate that the French have treated Cochin-China as an independent member of the Federation and have made no references to a referendum on Cochin-China's future status.

French treatment of Cochin-China as a free agent at the Dalat Conference will stiffen Cochin-China's attitude toward Viet Nam and similarly encourage the efforts of Viet Nam terrorists in Saigon to force Cochin-China into joining Viet Nam. French success in organizing an anti-Viet Nam front at Dalat will increase both their influence in Indochina and their reluctance to make concessions to Viet Nam. The recent reinforcement of French military forces, the ascendancy of French administrators who are disinclined toward compromise with native aspirations, and the defeat of the French Communist Party in the recent elections in France indicate that the French intend to employ a "strong policy" in Indochina. Viet Nam will resist and, as a result, an extended period of unrest in Indochina appears in prospect.



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## Unity Movement Stalled in South Korea

The promising unity movement in South Korea has apparently suffered a serious reverse since the return of Communist Party chairman Pak Heung Yong from a visit to the Soviet Zone. General Hodge has now declared that the movement is facing a crisis.

A committee composed equally of representatives of right and left wing parties and dominated by moderate leaders has been meeting since 20 July to discuss unity. After initially refusing to participate, the Communist Party joined in these discussions in a change of tactics interpreted as a repudiation of the intransigeant policy of Pak Heun Yong. The first and second meetings of the unity committee were held in an atmosphere of harmony. Both sides agreed on 26 July to present their terms for unification at the next meeting, and not to announce them publicly in advance.

On 27 July, however, in violation of this agreement, the left wing People's Front published its conditions for Korean unification. These included full acceptance of the Moscow decision, the redistribution of land without compensation, the transfer of administration to "people's committees," and the rejection of the advisory legislative body proposed by General Hodge. The People's Front thus publicly endorsed Soviet as against US policy. Since these conditions are not likely to be met by the other Korean parties or by the American Military Government, it will be difficult to find a basis on which the unity talks can proceed. In order clearly to fix the responsibility for the present political impasse in South Korea, General Hodge is seeking State Department clearance for a statement he has prepared denouncing the inveterate duplicity of the Communist Party in its dealings with the American Military Government and the Korean people.

## Ecuadoran Election Expected to Support President

The Ecuadoran Constituent Assembly, which meets on 10 August to vote on the draft of a new constitution and to elect an interim President, probably will continue Velasco Ibarra as President if a strong revolutionary movement does not materialize.





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The situation is tense and a war of nerves is being waged by all factions; Socialists are reported to have been feeling out dissident elements of the army to determine the feasibility of a coup against the none-too-stable Velasco regime, and a movement to return General Enriques, who was arrested last March for allegedly planning to overthrow the government, has gained sufficient strength to cause the administration concern. Such opposition is, however, poorly organized and lacking in effective leadership.

The strength of Provisional President Velasco Ibarra, who attained power in 1943 following a successful revolt, lies in the personal support of many delegates in the badly disorganized opposition parties. The Government PRU (Popular Revolutionary Union) Party has only 20 of the 62 seats in the Assembly while the Conservatives ostensibly have a majority. Many of the latter, however, are actually Velasco sympathizers and are expected to provide the necessary votes to retain him in office. The controlling factor in the present Government's favor is, in the last analysis, the Army, traditionally opposed to a wholly Conservative government and currently disposed to support the Assembly as representative of the entire country.





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# SPECIAL ARTICLES

1. Soviet Reaction to US Base Program
2. US Presses for Japanese Reparations Settlement



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## SOVIET REACTION TO US BASE PROGRAM

The Soviet propaganda line has for some months viewed with alarm the "Yankee imperialism" evidenced by the US program for naval and air bases "throughout the seven seas." Russian writers and commentators have frequently quoted from the left-wing press in the US, as well as in Scandinavia and Latin America, to show that the program has aroused deep popular resentment in the prospective base areas.

On one or two occasions Molotov has touched on the question by way of casual jibes, but his most revealing remarks were made in a press statement in late May. At that time he noted that US bases, originally justified by military necessity, were still being maintained long after the cessation of hostilities. He went on to state that the US planned permanent bases on British, Dutch and Japanese possessions in the Pacific, "quite regardless of to whom the islands belong." Turning to the situation in the Atlantic, he quoted an American correspondent to the effect that US outer defenses would include Canada, Iceland, Greenland, the Azores, the Canary Islands and the Falklands.

While it is thus apparent that the Soviet leaders have adopted a "line" relative to the US base program, and are aware of the propaganda possibilities therein, their attacks have not been sustained and they have not brought the issue into the open in the meetings of the CFM or in the UN.

There appear to be several possible explanations for this restraint, which obviously is deliberate and well considered. First, the Kremlin may reason that its immediate purposes can better be served by allowing left-wing elements and local nationalists in the areas involved to stir up suspicion and animosity toward the US in the hope that US objectives may be thwarted or that one of the countries directly concerned may raise the issue in public. Second, Soviet leaders may have ambitions for subsequently developing a base system of their own and may be reserving the US base issue for some future date when it can be used for bargaining purposes or as a precedent for similar Soviet operations. They have already indicated their interest in the Mediterranean, and may well be interested in Spitzbergen and Bear Island in the North





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Atlantic and certain Japanese mandates in the Pacific. They are not pressing such a program at present, probably because they must concentrate their efforts on the more immediate objective of consolidating their position in Central Europe and the Balkans. A third possibility is that the Soviets are reserving the base issue for a retaliatory presentation to the UN at some future date, should they be confronted with another and more serious Iranian situation.

In any event, Soviet leaders seem content to bide their time for the present, possibly hoping that US progress may be retarded by opposition from other quarters, and consoled by the consideration that any US success can subsequently be exploited for bargaining and propaganda purposes, and perhaps as precedents for contemplated Soviet operations. In any event, it seems likely that the Soviets will not fail to exploit the base issue more effectively in the future than they have in the past.



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## US PRESSES FOR JAPANESE REPARATIONS SETTLEMENT

The US is pressing for a speedy settlement of Japanese reparations and has proposed that the Far Eastern Commission call a reparations conference to convene on 15 August. The US is concurrently urging that the USSR accept the US formula regarding the definition and disposition of Japanese external assets, settlement of which the Soviets are believed to regard as a necessary prerequisite to a reparations conference.

The US feels that a reparations settlement is urgently needed. Although 12 months have passed since the surrender of Japan, the reestablishment of the Japanese economy still is being postponed and the attainment of occupation objectives is being hampered. The US hopes, therefore, that the proposed FEC-sponsored conference will remain in continuous session until all reparations problems are settled. The FEC is keeping the proposal on its agenda in order to permit speedy action, and the UK, Canada, Philippines and The Netherlands already have approved the conference proposal. The Soviet reaction to the conference proposal is not known, but US representatives in both Moscow and Paris have been directed to press for a Soviet decision on external assets, and thereby expedite the convening of the reparations conference.

The principal issue involved in external assets lies in the interpretation and disposition of "war booty," highlighted by Soviet withdrawal of industrial equipment from Manchuria independently of any general settlement. The USSR broadly interprets "war booty" to include all equipment which served the needs of the Japanese Army, and claims that the same definition was inherent in the armistice agreements concluded by the Allied Powers with Bulgaria and Hungary. US views, on the other hand, follow the 1907 Hague Regulations on Land Warfare which limit "war booty" to property that is movable, government-owned and susceptible of military employment. The US further maintains that "war booty" cannot be construed to include industrial enterprises or their components.

In spite of the legal strength of the US position, there is considerable doubt whether the USSR will accept a definition entailing the return of any Japanese property seized as war booty. The US has consequently decided to deal with the USSR on an ad hoc basis in order to





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expedite the Japanese reparations settlement. The decision, which was communicated on 25 June to the Soviet Embassy in Washington, proposed a formula eliminating the distinction between war booty and external assets. The formula called for retention by all countries at war with Japan of all Japanese external assets within territories under their control or removed to their territories before 1 June 1946, providing it is agreed that all such assets shall be offset against total national percentage shares of Japanese assets declared available for reparations.

Although the US formula permits Soviet retention of Japanese property seized as war booty, it is doubted that the USSR will agree to reverse its position, expressly announced in April, that "war booty" should be excluded from reparations discussions. It appears certain, furthermore, that the USSR will not agree to the provision which would permit all countries at war with Japan, whether or not actively engaged, to retain Japanese assets within their territories and charge them against reparations claims.

If the USSR should agree to the US formula on Japanese external assets, FEC concurrence would follow, since China, the UK and Australia have all indicated informally that they favor the US position. Chinese views on war booty have paralleled US views, although in recent months the Chinese have tended to relax their opposition to Soviet seizures in Manchuria.

In the event that Soviet-US agreement on external assets is not reached, the US may submit its formula to the Far Eastern Commission for decision. Such action is almost certain to entail a Soviet veto of the conference proposal now before the FEC. The USSR would thereby leave the US with the alternatives of either accepting further delay in settling reparations or proceeding without the USSR and thereby injuring the hopes of international cooperation. Soviet agreement to the conference proposal without acceptance of the external assets proposal would throw this latter problem into conference discussion and result in almost equal delay and annoyance. In either case, the solution of the economic consequence of Japan's defeat appears likely to be long-delayed, possibly in full accord with Soviet Far Eastern policy.





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## Soviet Propaganda Increases Attacks on US

During the past two months Soviet propaganda against the United States has increased in volume and intensity, while attacks on Great Britain, the chief Soviet propaganda target during the early part of the year, have diminished. The Soviet press, which last March extolled the tradition of "unvarying political friendship" between the US and USSR, now sees US "atomic diplomacy" and its alleged attempt to impose a "pax Americana" on the world as the principal threats to international peace.

The shift of propaganda emphasis from the UK to the US appears to have several aims. One is to influence US policy by arousing anxiety among US groups who fear the consequences of a firm US attitude toward the USSR at the Paris Peace Conference and in other fields of conflicting interests. Another is to prepare the Soviet people for a possible deterioration of relations with their former US allies. A third objective, which the Soviets appear to feel was not achieved by their attacks on the British, is to split the "Anglo-American bloc." In support of this aim the Soviet press has played up clashes between British and US economic interests in Yemen, the oilfields of the Middle East, and Anglo-American competition for the markets of India and the Far East.

In the current shift of emphasis from the UK to the US, however, the basic aim of post-war Soviet propaganda remains the same: to prevent the formation of any bloc of countries outside the Soviet sphere, and to maintain the unity of the Soviet people behind the Government by emphasizing the menace of "capitalist" powers seeking to "encircle" the USSR.

## Soviet Aims in Supporting German Unity

The recent Soviet proposals in support of the unification of Germany must be viewed in the light of developments in the Soviet Zone to appraise their true significance.

Within the Soviet Zone, the USSR dominates almost completely the political and economic life of the people. Political control has been





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assured by the Soviet-created SED Party, which was formed by forcibly merging the Socialist and Communist Parties. The effectiveness of Soviet control is evidenced by the recent affirmative vote on the nationalization of property in Saxony, and it appears certain that the SED Party will dominate the coming elections. Although complete nationalization has not been enforced throughout the entire Soviet Zone, private commercial and industrial property in the US sense of the term can be said to be non-existent. It is particularly noteworthy that these developments in the Soviet Zone have taken place in large measure while the Allied Control Authorities have been considering uniform property treatment to be applied throughout Germany.

In view of the need to consolidate the gains already made, it is unlikely that the social revolution in the Soviet Zone will proceed much further during the next year or two. However, the USSR's proposals looking toward the removal of zonal barriers suggest that the Soviets consider that their control over Eastern Germany is now secure and that they are in a position to launch a vigorous campaign to communize the Western Zone as soon as the zonal barriers are removed.

## Hungary's Coalition Under Increasing Tension

The Hungarian Government's acquiescence in Soviet demands for a purge of "fascist" organizations and Government officials has produced increasing tension between Hungarian leftists and conservative groups, and a near-revolt within Premier Nagy's Smallholders' Party. Members of the Smallholders' Party in the Assembly have demanded the resignation of the Communist Interior Minister responsible for carrying out the Soviet demands. The Minister subsequently agreed to reinstate Government officials who had been purged, and a final decision on the dissolution of Church organizations has not yet been reached. Nevertheless, Cardinal Mindszenty, a leading anti-Communist, reportedly plans to order the resignation from the Government of influential clerics who have endeavored to avoid an open break with the leftists. Such a step would remove an important moderating force from conservative Government circles and widen the split between leftists and the Church.





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Meanwhile Nagy has had great difficulty in avoiding an open split within his own Smallholders' Party, a large part of which opposes his concessions to leftist and Soviet demands, and insists upon the expulsion of left-wing members as "fellow-travelers." Nagy appears exhausted and despondent and would eagerly give up his official responsibilities were it not for his conviction that he and Mikolaczyk in Poland are the principal barriers to the Communist sweep in Eastern Europe.

Nagy's continuance in office will depend on the Soviets, who, for the present, appear determined to preserve at least the form of coalition government in Hungary. It seems likely, however, that Hungary's condition may soon come to resemble that of Poland, Rumania, and Bulgaria, with an entirely pro-Soviet regime prepared to tolerate only a paralyzed and ineffectual opposition. Political developments in Hungary after the peace treaty is signed will depend largely upon the size of the Soviet force left in the country to guard Soviet lines of communication.

## Hungary Attempts to Stabilize Economy

On 1 August the Hungarian Government put into effect its program to stabilize the Hungarian economy, which has been brought close to collapse by war damage, heavy Soviet requisitions for the Red Army, and the drain on manufacturing capacity occasioned by reparations payments. The Government has introduced a new currency, the forint, to replace the virtually worthless pengo, and has devised a program which in essence aims to close the gap between consumer needs and available consumer goods by reducing the real income of the working class and artificially stimulating the sale of hoarded farm products.

Despite public manifestations of confidence in the new program, most Hungarian officials privately have expressed the belief that it can afford only a temporary respite and will eventually be hamstrung by acute shortages of goods and by continuing demands of the Soviet occupation forces for food and services. The forint has been valued at 18 to the dollar, but as early as 12 July black market offerings for delivery on 15 August were at the rate of 40 to the dollar.

The US has repeatedly requested the USSR to participate, according to the terms of the Yalta agreement, in attempts to formulate a three-





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power program for the amelioration of conditions in Hungary. The Soviets have rejected all US proposals and continued their economic exploitation, apparently indifferent to conditions which Soviet spokesmen allege do not result from requisitions and reparations payments. The fundamental Soviet objective, aside from provisioning occupation forces, appears to be the establishment of a firm hold on the Hungarian economy before the conclusion of the Hungarian peace treaty, which will hamper overt Soviet interference in Hungarian economic affairs.

## Objectives of Current Kuomintang Offensives

Current military activity in China centers around the Nationalist drive in the Lower Yangtze Valley. Strong Nationalist forces totaling seven armies have advanced northward into areas held by the Chinese Communists to depths of 50 miles along a 130-mile front. In North China Communist forces in Shansi Province have increased their grip on the Tatung-Taiyuan Railroad, but in Shantung Province recently strengthened Nationalist forces have regained control of nearly all of the vital Tsinan-Tsingtao Railroad. The military situation in Manchuria remains quiet with a few adjustments of position in the vicinity of the Nationalist bridgehead across the Sungari River below Harbin.

The Kuomintang offensives appear to have both economic and political objectives. The reopening of the coastal rail lines of eastern China will improve economic conditions in urban areas, such as Shanghai, Nanking and Tientsin, which depend on rail shipments for food, coal and raw materials. Abatement of popular feeling against the KMT may be expected to follow revival of economic activity. In the political sphere, the present drives are believed designed to bolster the position of the Central Government in further negotiations on Army reorganization, restoration of communications, and Communist evacuation of certain areas in North China and Manchuria. If negotiations fail, the gains secured by these drives will give the KMT a strong strategic and tactical position for the prosecution of full-scale civil warfare.





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## Paraguay Liberalizes Government

The Paraguayan Government recently has taken several steps designed to replace its military dictatorship by a democratic government with extensive civilian participation. After putting down the unsuccessful revolt of 9 June 1946, President Morinigo and high military officials promulgated a program to effect the long promised democratization of the Government. The recent Bolivian coup appears to have accelerated the implementation of the program, which provides for the calling of elections for a constituent assembly (no legislature was elected in the elections of February 1943), the employment of the Army to assure legal and honest elections, the repeal of restrictions on freedom of the press and political activity, and the reorganization of the cabinet to include various sectors of political opinion.

Restrictions on the press were lifted on 9 July, and ten days later the act prohibiting political activity was repealed. On 24 July a new cabinet was appointed, including representatives of the two major opposition parties, and only two army officers, in the posts of National Defense and of Interior. Col. Rafael Franco, a former President, was also invited to return to Paraguay from exile in Montevideo to collaborate in the solution of political problems and is expected to arrive on 3 August.

It appears uncertain at present, however, whether Paraguay will achieve sufficient stability to implement the democratic program. The return of Col. Franco, a former Chaco War hero with a considerable army following, is likely to have an unsettling effect on the complicated internal political situation, in which all parties are already exercising to the full their new freedom of action. Political leaders, moreover, are presumably watching for possible opportunities to attain power through a traditional Paraguayan coup d'etat, and fear is expressed in some circles of a Franquista coup on, or after, Franco's arrival.





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# SPECIAL ARTICLES

1. Obstacles to US Base Program
2. Implications of State Economic Control in China
3. The Workers' Confederation of Latin America (CTAL)



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## OBSTACLES TO US BASE PROGRAM

The efforts of the US to acquire long-term rights to military bases in foreign countries appear to be encountering increasing opposition. The growth of this opposition is a reflection of a number of currents in national thinking that have developed, either singly or in combination, in response to the changing conditions of the first post-war year. These currents may be enumerated as follows: increasing nationalism with its concurrent sensitivity to the presence of foreign troops or to any infringement upon sovereignty; fear of antagonizing the USSR, or of aggravating the cleavage between the USSR and the Western Powers; concern regarding the effect of base concessions upon the neutral status of grantor nations, particularly in the Atomic Age; and, possibly, the gradual recognition that there is a fundamental conflict between the principles of the UN and the unilateral construction by a single power in peacetime of a defense system extending into foreign territory. Some of these currents are obviously more clearly defined than others, and they vary in importance from one country to another. But taken as a whole, they appear to constitute an obstacle to the successful completion of the US base program and may also lead to friction over base agreements already concluded.

The receptivity of any given nation to US base proposals seems to have been in direct proportion to the probability of its participation in any major conflict as an ally of the US. Thus, the greatest solidarity with US policy is shown by Canada, where the delay in the US-Icelandic agreement, for example, is considered to be a matter of direct concern. Likewise the UK, having granted the US 99-year base rights in British territory under somewhat compelling circumstances, is still wholly cooperative. If there is currently a slight reserve in the British attitude, it probably results from a sincere misgiving that the US program may produce reactions in the USSR which would be unfortunate for both Britain and the US and for the cause of international peace.

Latin America has likewise been generally cooperative. A satisfactory agreement has already been drawn with Brazil and the conclusion of agreements with other Latin American countries appears to be in prospect following the settlement of incidental commercial aspects and protocol requirements. There have already been indications, however, that





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Nationalist sentiment, always receptive to exploitation by local factions or foreign propaganda, is producing friction in Brazil, where sensitivity to the presence of foreign troops and a foreign flag has already appeared. This same Nationalist sentiment may still intervene to prevent the conclusion, or at least to force the modification, of the pending agreements with other Latin American countries.

The most serious opposition to the base program has developed with respect to Iceland and the Azores. The acquisition of rights to military bases in these areas requires the consent of small nations whose foreign policy has sought for years to maintain a neutrality in major conflicts. Nationalist sentiment, particularly in Iceland, is strong. These nations do not yet appear to be convinced that it will be impossible for them to remain neutral in a future conflict. They appreciate the commercial and political advantages of close collaboration with the US but they are equally impressed by other factors, such as: the danger of offending the preeminent continental military power; the examples of devastation of other small nations in the recent hostilities; the uncertain position of small nations in the UN; and the inability of the UN to clarify the status of the atomic bomb or to settle the basis for international military action under the UN. Their fears are only partially allayed by the willingness of the US to give limited political guarantees and to recognize prior UN rights to the use of the bases.





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## IMPLICATIONS OF STATE ECONOMIC CONTROL IN CHINA

From the very beginning of its rule, the National Government has moved to expand its control over China's economic structure, and the pace of that expansion has been greatly accelerated since the Japanese surrender. The range of state controls, extending from outright government ownership of certain enterprises to many forms of indirect control, now enables the state to dominate nearly all of China's industry, utilities, and communications. The National Government is today in a position to discriminate against not only the private Chinese entrepreneur, but also foreign interests in China, which no longer are afforded the protection of extra-territorial rights.

Much of the framework for post-war economic control was built up before and during the Sino-Japanese war. A pronouncement of the Supreme Defense Council, issued in November 1944, gives a clear picture of the economic controls available to the state by that time. Although this pronouncement limited government ownership to arsenals, mints, posts and telecommunications, important railways and hydro-electric projects, it authorized the Government to engage in what it considers to be essential industries, such as petroleum and steel production, by means of companies organized under the general corporation law and possessing the same status as private concerns. The pronouncement also set forth a wide area in which the state might extend its control over private companies and over investment in general.

The greatest impetus to state economic control, however, took place last fall shortly after the Japanese withdrawal from China, Manchuria, and Formosa. By sequestration of a vast complex of former Japanese and Japanese-controlled factories, communications and utilities in those areas, the National Government acquired industrial equipment, largely in the basic industries, with an estimated value of between US $1 billion and US $2 billion and representing an investment roughly equal to one-half the total value of all Chinese industry.

Utilizing the industries and services over which it has assumed control, the National Government has formed in recent months a number of new "private" enterprises with special status. These enterprises appear to represent the investment of quasi-government banking funds under





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the management of influential bureaucrats. For example, the Vice President of the Executive Yuan, Wong Wen-hao, is president and board chairman of the newly formed China Petroleum Corporation and chairman of the China Textile Industries Company.

The Government continues to recognize a distinction between basic and light industry as the object of nationalization. Since consumer's goods industries are not traditionally considered legitimate territory for the state, government operation of units in the textile and other light industries may be relinquished at some future date; the Government has in fact promised the return of its substantial cotton mill holdings to private hands not later than three years hence. However, even if this promise is fulfilled, the Government's far-reaching indirect controls place it in a strategic position to dictate operating and investment procedures throughout the entire economy.

Circumscribed by limitations on investment in industry, Chinese nationals can offer little private competition with those government and quasi-government corporations which now extend into so many fields, and can do little to oppose the bureaucratic interests that directly and indirectly exercise power over the economy.

For the private foreign investor, expanding Government activity has been a source of increasing concern. State enterprises have already invaded two Chinese industries that have been important fields of foreign participation--petroleum and shipping. In these industries, the state enterprises have preferential status vis-a-vis foreign as well as domestic private interests. In other fields, notably tobacco and electric power, restrictive trade policies and prejudicial price rulings have fostered a growing pessimism among foreign businessmen.

To date, the issue of state encroachment upon the activities of foreign interests has been most sharply drawn in the field of petroleum, where foreign oil companies have been negotiating in order to obtain government assurances that their present and future investments in oil marketing facilities would not be endangered by state-fostered competition or by restrictive legislation, and to take part in modernizing the Formosan refinery at Takao, which the National Government acquired substantially intact from the Japanese. Negotiations reached a breaking-point last month





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when President Wong of the China Petroleum Corporation (whose charter bans the admission of foreign capital and permits operation both as a private business competitor and as a government regulatory body in all phases of petroleum operation) stated that the Government was in the oil business "to stay" and that public opinion would not countenance foreign participation in the Takao refinery.

On 19 July, the State Department authorized Embassy Nanking to express to the Chinese US concern over the dictatorial position of the new CPC and, while recognizing "China's sovereign right" to nationalize enterprises, regretted any Chinese economic policies that discouraged the inflow of private foreign capital. The Department pointed out that US public funds were not designed to replace private capital where available, or to finance projects that would result in "the acquisition or displacement of existing and economic private enterprises." On 25 July, Wong stated that he was "fully prepared to cooperate with foreign companies" on such matters as distribution and marketing, but gave no indication that the broad powers of the CPC would be reduced.

Whatever the outcome of the petroleum dispute, the larger fact of state control over practically all the Chinese economy remains. It is doubted that economic domination by the National Government will work to the advantage of the country as a whole. Rather, the extension of state control is tending to further the development of a loose and inefficient "bureaucratic capitalism" and may lead to the emergence of a Chinese "zaibatsu," exploiting Chinese labor in the interest of its personal gain. The concentration of economic power in the hands of the Government likewise provides a means for the possible implementation at some future date of the deeply rooted Chinese desire to rid the country of all foreign control.





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## THE WORKERS' CONFEDERATION OF LATIN AMERICA (CTAL)

La Confederacion de Trabajadores de la America Latina (CTAL), which includes virtually all the national labor federations south of the Rio Grande, has become an important political factor in the Western Hemisphere. Its influence frequently has been exerted against the interests of the US.

The CTAL was conceived and founded by Vicente Lombardo Toledano, Mexican lawyer, orator and labor organizer and widely regarded as an exponent in Latin America of official Soviet foreign policy. (His membership in the Communist Party, however, has not been proved.) Lombardo, born in 1894, began his career in labor activity in 1921 under the Regional Confederation of Mexican Labor (CROM), rejected that organization as reactionary in 1932, and in 1936 founded the Confederation of Mexican Workers (CTM), which has received strong support from the Mexican Communist Party. With the organization of the CTAL in September 1938 he achieved his larger scheme for a confederation representing all Latin American labor.

The initial membership of the CTAL, comprising affiliates in Argentina, Chile, Colombia, Costa Rica, Cuba, Ecuador, Mexico, Nicaragua, Panama, Uruguay, and Venezuela, probably was about 1,125,000, although it claimed 5,000,000. In the last eight years it has grown impressively to include affiliates in all countries of Latin America except El Salvador, Honduras, and Haiti, comprising in all over 2,500,000 workers. It has employed many traditional Communist maneuvers including propaganda, infiltration, "boring from within," and coalition with genuine liberal groups.

In October 1945 the various national affiliates of the CTAL became members of the World Federation of Trade Unions (WFTU). Lombardo is a member of the 26-man Executive Committee of the WFTU and is one of seven Committee members who hold the WFTU Presidency in rotation.





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Lombardo has dominated the CTAL's international policies since its founding, and has generally shown fidelity to the Kremlin line. His closest friends and collaborators are known Communists, and he has been hailed by prominent Communist leaders as Mexico's outstanding authority on Marxism. He founded and directs Mexico City's Workers' University, in which many professors are distinguished European and Mexican Communists, and which has acted as a publishing house for Soviet propaganda. His attacks on American "Imperialism," Franco Spain, and the "fascist" governments of Argentina, Bolivia, and Paraguay, have closely paralleled current Soviet propaganda.

Many of CTAL's key personnel are highly intelligent and militant Communists, including seven of the eleven-man executive board. The CTAL affiliates in Mexico, Colombia, Costa Rica, Cuba, Chile, Uruguay and Brazil are regarded as particularly subject to Communist influence.

It should be noted, however, that not all of the affiliates of the CTAL are controlled by Communists and some show no evidence of Communist influence. Lombardo's Communistic tendencies, in fact, have in recent years aroused increasing opposition. The CTAL has been divided on post-war policies. Splits between Socialists and Communists in CTAL affiliates have resulted in open struggles for the control of the national federations in Peru, Colombia, Chile, Mexico, and Puerto Rico. Lombardo's dominance also has been contested by the Catholic Church, conservative groups, and several Latin American Governments.

The CTAL has proven itself to be a formidable opponent in industrial warfare, and most of its national affiliates have won numerous concessions through strikes or the threat of strikes. It has also employed the same tactics for political purposes. Stevedores in Chile and Uruguay have refused to load nitrates for Franco Spain; token strikes, almost continent-wide in extent, have demonstrated disapproval of the Peron-Farrell regime in Argentina; and various propaganda organs of the CTAL, such as the CTAL News, printed in Spanish and English, have advocated mass labor action on political issues, frequently in close parallel with the Communist line.





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The CTAL is a potential threat to the US in time of war through its ability, by strikes and sabotage, to hamper the production and shipment of strategic materials such as Mexican and Venezuelan oil and Brazilian minerals. The workers of Latin America have, however, never been called upon to make a clear-cut choice between their Communistic leaders and the Western Democracies. If they were called upon to make such a choice at present, it is believed that the Communists' control would be severely weakened. Over the long run, however, the CTAL may provide a significant instrument for consolidation of Communist control of organized labor in many important areas of Latin America.





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# WEEKLY SUMMARY

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## Portuguese Intransigeance on Azores Bases

The US continues to encounter serious difficulties in negotiations with the Portuguese for long-term US military rights in the Azores. The US has construed the 30 May agreement, providing for US retention of certain rights at the Lagens base for 18 months, as defining a transitional phase leading to a long-term agreement. The Portuguese have rejected this construction of the 30 May agreement and have insisted that negotiations for long-term rights be regarded as a new chapter.

The Portuguese have exploited to the full their strong bargaining position, which rests on the importance of the Azores bases to the US defense program. They have demanded as a condition of any long-term agreement that the US guarantee the military security of Portugal and its possessions. They refuse, furthermore, to permit any foreign troops on Portuguese soil during peace-time, and apparently are willing to allow only occasional US surveys of Portuguese bases before an actual outbreak of hostilities. More generally, they appear reluctant to assume any such commitments prior to clarification of the UN's relation to small nations and the UN employment of military measures including the atomic bomb.

## The Iceland Base Issue and the UN

The initial sessions of the Icelandic Parliament, convoked to consider Iceland's application for UN membership, indicate that the question of Iceland's entry into the UN is being employed as a weapon against the US position on the lease-base issue. In recommending to the Parliament that Iceland apply for UN membership, the Foreign Affairs Committee stressed that under Article 43 of the Charter "no obligations can be enforced on the Icelandic state without its consent," and that "Icelanders are strongly opposed to military bases in their country and will oppose granting of such bases."

In the debate which followed, the question of bases was the principal subject of discussion. The Communist Party spokesman urged prompt adherence to the UN in order that the question of the "foreign troops" remaining in Iceland "against the will of the nation" might be brought before the Security Council. The independent Social Democrats





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introduced a resolution approving UN membership but with the proviso that Iceland be not required "to grant military bases for foreign troops" and that such troops still in Iceland "be withdrawn immediately" so that Iceland can enter the UN "as a completely free nation." The Prime Minister is endeavoring to have this resolution voted down and to keep the way open for direct negotiations with the US.

While the Communist position probably reflects Moscow's desire to prevent US acquisition of bases, the potentialities of the atomic bomb may be engendering a genuine opposition on the part of neutral and remote countries to the granting of air bases, even for use under the UN. In any event, the current state of Icelandic opinion on the base issue does not appear to augur well for the success of any further US proposals.

## British Difficulties in Southern Iran

The British in Southern Iran are engaged in a bitter and unpromising struggle with the Soviet-inspired Tudeh Party. Wretched labor conditions at the Anglo-Iranian Oil Company have generated strong and widespread bitterness throughout Khuzistan Province, seat of the Company's Abadan refinery, and the Tudeh-organized Workers and Toilers Union now numbers about 54,000 members in Abadan. The union achieved a general shutdown at Abadan in the recent strike and returned to work only on the intervention of the pro-Tudeh Firuz, Qavam's personal emissary to the area. Prospects for peace and uninterrupted production, essential to the supplying of oil for British strategic and economic needs, are unfavorable, in view of the bitter antagonism between the Tudeh faction and the British-sponsored Arab tribal units.

To meet this situation the British in Abadan have resorted to a show of force, in sending a cruiser and sloop to waters off Abadan when tension in the oil strike was at its height. They also have attempted belatedly, and possibly in excess of instructions from London, to organize anti-Tudeh elements into a "Democrat and Arab Union." The principal leaders of that group, however, are tribal chieftains who are suspicious of the UK and who in any case provide no organization comparable to that of the Tudeh. At the same time, the British have been watching the progress of Qavam's new party in the hope that they may, by supporting it, deflect from themselves the full force of the Tudeh pressure.





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## The Decline of French Communist Prestige

The French Communist Party has encountered a series of blows to its political prestige, beginning with its surprising defeat in the Constitutional referendum of 5 May. The 2 June elections of Deputies to the Constitutional Assembly reduced the Communists from first to second place in Party strengths. Molotov's declaration of 10 July on Germany rejected the French Communists' vigorously espoused thesis that the Ruhr/Rhine area must be detached from Germany. The recent efforts of the Communists in the Assembly to invalidate the elections of three Rightists, because of their association with Munich and the fall of France, not only met with complete defeat but permitted the Communists' opponents to accuse the Party of attempting to over-ride the electoral majority and to air fully the suspect Communist policy during the period (1939-41) of the German-Soviet pact. This series of setbacks may result in further losses for the Communists in the forthcoming mid-October elections.

Because its defeats have all been suffered over political issues, the Party may attempt to recover prestige on economic grounds. Through its almost monopolistic control of wage-earners and civil servants (some 5,000,000 members of the General Confederation of Labor) the Communist Party has great power over the French economy. If the Party remains in the Government, it may elect to exert this lever to support economic reconstruction and thereby win the public acclaim necessary for the restoration of its political prestige. On the other hand, it may withdraw from the Government and precipitate a condition of economic chaos, in hopes that a genuine Communist regime might eventually arise. The attitude of the Kremlin obviously will strongly influence the Party's choice of these courses.

## The Italian Colonial Issue

The CFM decision to postpone settlement of the Italian colonial issue for one year already has been seized by the Italians as an opportunity to influence the colonies' eventual disposition. The Italian "Governor of Colonies," Cerulli, has initiated conversations in London with the British, who may be expected to offer either the largest concessions or the strongest opposition, since they not only occupy the colonies but also assert a paramount interest in their disposition.





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The British have been definitely cool to Cerulli's suggestions, which he attempted to present as an integral part of a "policy of Anglo-Italian friendship." They insisted on excluding the Italians from Cyrenaica "both politically and economically," and were generally negative about Italian trusteeship over Eritrea. They agreed to regard the Italian interest in Tripolitania and Somaliland only as a "subject for discussion." It would thus appear unlikely that the UK can be induced to support the French suggestion on which the Italians have pinned their initial hopes of Italian trusteeship under UN supervision. The British must take into account their strategic considerations, their public commitments to the Senussi, the necessity of not antagonizing the Arab world, and the attitude of the Dominions, particularly South Africa, which opposes any change in the status quo of the African possessions of the major powers.

The Soviet proposal, that each of the Big Four undertake the administration of one of the Italian colonial areas, contained the suggestion that the chief administrator in each colony should have an Italian assistant. While this small concession to Italian pride may have been intended merely to strengthen the position of the Italian Communists, the suggestion may indicate to the Italian Government the quarter from which it might next seek support if the British continue to snub Italian aspirations.

The fact, however, that Cerulli informed the US Embassy in London of the British reaction to his overtures, and stressed the Italian desire to arrive at a solution which would strengthen the British position in the Middle East, would suggest that the present Italian Government hopes that the US may induce the UK to make sufficient concessions to render it unnecessary for Italy as a last resort to seek support in Moscow.

Continued Anti-Semitic Outbreaks in Poland

The Kielce pogrom and subsequent acts of violence against Polish Jews have intensified the bitterness between anti-Communist groups and the Polish Government. Mikolajczyk has charged that the Kielce pogrom was instigated by leftist groups in order to discredit the Peasant Party. The Government in turn has blamed anti-Semitic outrages on Polish "reactionary" groups including followers of Mikolajczyk.





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These anti-Jewish outbreaks are in part an expression of popular hostility toward the leftist Government, which contains some highly placed Jews, and which is believed to have falsified the results of the recent referendum. The underlying cause, however, is the long tradition of Polish anti-Semitism. Before 1939, a majority of Polish parties officially sanctioned anti-Semitism. Elements of these parties, now active in the rightist underground, appear to be encouraging anti-Semitism in an effort to discredit the present Government.

Recent pogroms, however, constitute only a small part of the wide-spread disorders which the Government has been unable to control. While the Government has vigorously condemned acts of violence against the Jews, it apparently anticipates that the majority of remaining Polish Jews will have left the country within a year and that the anti-Semitic issue will thus automatically be removed.

Democracy and Unity in South Korea

The unification movement sponsored by American Military Government authorities in South Korea has now reached the point where the various parties have appointed delegates "to meet and substantiate unity." The proposed coalition of the numerous and divergent political parties in South Korea has strong popular support. The Communist party, whose resistance to the movement has become increasingly unpopular, has finally committed itself to participation.

Korean political parties previously have been grouped in two organizations, the rightist Democratic Council and the leftist People's Front. The unity movement has brought together the moderates and isolated the extremists in both groups. Rhee Syngman was removed from the chairmanship of the Democratic Council last March, largely because of his intransigeant opposition to the USSR and the Communists, and more moderate influences have since prevailed in the Democratic Council. The People's Front recently appears to have shaken off Communist domination in supporting political unity as sponsored by General Hodge. An independent leftist has represented the People's Front in the unity negotiations, and has thus become the acknowledged leader of the non-Communist left.





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With the elimination of the extremists and the consolidation of the moderates in South Korea, the foundation has been laid for the gradual development of representative government. In this way the Korean people can prepare for independence, and the harmful effects of the Joint Commission's failure to unify Korea will be minimized. In view of Soviet silence on General Hodge's requests to resume negotiations for the fulfillment of the Moscow Agreement, a share of self-rule appears the best present prospect for South Korea.

Siamese-French Border Dispute

French opposition to submitting the Indochina-Siam border dispute to the Security Council has spurred efforts to find another international procedure for handling the issue. Direct negotiations between the disputants have so far failed despite US and UK suggestions for speedy settlement. However, attention is now being directed to the possibility of submitting the dispute to the International Court.

Basic factors involved in the situation are the existence of a technical state of war between France and Siam, the French demand for immediate retrocession of the territories which Siam seized with Japanese aid in 1941, and the fact that any Siamese Government which voluntarily retroceded the territories would be subject to violent opposition at home.

The French recognize that the Siamese Government by its unilateral act in bringing the dispute to UN is seeking an "out" in the form of a decision by an international body, but they fear that "red herrings might be drawn across the track of the basic issues" as a result of Security Council discussion. It is known that the Siamese intend to raise the historical issues of France's earlier acquisition of the areas in the presentation of their case.

The possibility of adjudicating the dispute by the International Court was first suggested by the French. The British have indicated their approval of this suggestion and even allayed certain French doubts as to the delay involved in legal proceedings by pointing out that the matter can be treated as urgent by the Court, which does not have a full docket.





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The French are requesting that the US urge the Siamese to accept the French proposal for submission of the dispute to the International Court, and to withdraw their complaint from the Council.

The fact that the Siamese have asked that the dispute not be placed on the agenda of the Security Council until the arrival of the delegation from Bangkok suggests that the Siamese will be amenable to compromise, and has given additional time to search for a satisfactory solution.

## Madame Sun Joins the Propaganda War

The increasingly bitter propaganda war between Kuomintang and Communist factions during the past two months has provoked a statement from Madame Sun Yat-sen, widow of the founder of the Chinese Republic. On 22 July, in one of her infrequent public utterances, Madame Sun asserted that Chinese reactionaries are stirring up a civil war which they could not hope to win without American aid. These elements, she stated, hope for war between the US and the USSR. She added that in existing circumstances the presence of US forces in China is unwelcome and that US aid to China ought to be withheld pending the establishment of a suitably reorganized Chinese Government.

Madame Sun's statement had two objectives. It was directed primarily toward the US at a time when the problem of continued military and financial aid to the Chinese Government is under careful review. She employed her international prestige to underwrite an appeal to the American people and Congress by fifty-six Chinese educators, liberals, industrialists and professional leaders that no more aid be given to the Central Government.

Madame Sun's objective within China was to throw her prestige publicly against rightist elements in the Government and Army who demand a military solution to the "Communist problem." Chinese public opinion is never a decisive factor in the decisions on national policy which the Generalissimo makes in his capacity as a balance wheel among contending power groups. But strong and continued pressure eventually influences him--as was demonstrated in the events from 1935 to 1937 when he finally decided to abandon the drive against the Communists and prepare for war with Japan.





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In warning against further US assistance and in calling for a compromise in China, Madame Sun reaffirms the position she has consistently held in Chinese politics for two decades. It is essentially the same position as that of the Democratic League, and of most non-party liberals, and parallels the line of the Chinese Communists on the particular issues of US aid and a compromise solution.

Democratic Government for Bolivia Likely

The violent overthrow of Bolivia's dictatorial and pro-Argentine Villarroel regime promises to result in a popular and democratic government enjoying improved relations with the US, Peru, Chile and Brazil.

Villarroel, the tenth Bolivian President in fifteen years, came to power in December 1943 in a coup engineered by the pro-Nazi and pro-Argentine Movemiento Nacional Revolucionario Party. He obtained Allied recognition by temporarily ousting MNR members from his Cabinet, but has depended since that time on MNR and Army support. His overthrow resulted when the Army, dissatisfied with the tyrannical tactics of the MNR, failed to support him against groups of armed students and citizens revolting against the government.

The new provisional Government, which has issued the usual statement of policies designed to gain recognition, appears to have won the support of the Army and has been backed by the tin miners, as well as by the academic and municipal groups which precipitated the revolt. The Army, however, is in a disorganized state and at present is under civilian control. The success of the revolution is believed by US Ambassador Flack to constitute an irreparable blow to the Argentina-sponsored anti-US bloc in South America.





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## Implications of Soviet Policy Towards Germany

By rejecting both the US federalization and the French dismemberment proposals Molotov has given a clear indication that the Kremlin has, at least for the time being, decided that the bulwark of Communism in the west is to be Germany and not France. A German administration strongly centralized in Berlin will be much more susceptible than a loose federation to Soviet pressures, particularly in a Germany economically debilitated by such exorbitant reparation payments as the Soviets are currently demanding. Posing thus as the champions of German nationalism and rehabilitation, the Soviets can attempt to discredit the policy of the western powers and to facilitate Communist penetration of their zones.

At the same time Molotov has left the door open for a subsequent change of tactics. By blocking Secretary Byrnes' proposal for the immediate designation of deputies to begin consideration of future Allied policy toward Germany he has left the way clear for a different Soviet approach when the Council of Foreign Ministers next discusses the German question. At that time the Kremlin will be better able to judge the progress of its penetration in the western zone.

The Soviet pronouncement on Germany has caused consternation in the ranks of the French Communists. Having been among the most vigorous proponents of the political separation from Germany of the Ruhr and Rhineland, they have been forced quickly to resort to the familiar Communist stratagem of befogging the issue, explaining the Soviet position as in the Leninist tradition of "protecting the German proletariat by opposing British imperialism." As a result the Communist party in France can hardly fail to suffer some loss of prestige.

## Continuing Disorders in Venezia Giulia

Despite acceptance by the USSR of the compromise agreement regarding Trieste at the Paris Conference of Foreign Ministers, Yugoslav spokesmen have consistently maintained that the Trieste settlement is unacceptable. Recent disorders in Trieste as well as border clashes





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between Yugoslav and American troops along the Morgan line appear to be part of a concerted attempt by the Tito Government to discredit AMG in Venezia Giulia. Well organized pro-Slav groups in Zone A appear to be directed from Belgrade with possible covert backing by the USSR. The immediate objectives of pro-Slav groups are to demonstrate Slav solidarity and thus influence the settlement of the Venezia Giulia problem at the Peace Conference.

With a tightening of Allied security resulting from the recent disorders, these groups may be expected to resort to underground operations in an effort eventually to secure control of the Trieste regime, whatever form that might take. In contrast, Italian dissatisfaction with the Paris settlement has so far been limited to press attacks and public demonstrations throughout Italy.

Soviet Demands on Hungary

The Hungarian Government last week acceded to Soviet demands for a number of strong measures against allegedly anti-Soviet and "fascist" organizations and Government officials. The Soviet action was directed against the chief centers of resistance to leftist domination of Hungary: the conservative Smallholders' Party and the Catholic Church. It undoubtedly reflects the Soviet desire to establish the control of the minority Communist Party in anticipation of the peace settlement and the ultimate withdrawal of Soviet troops.

In the free Hungarian elections of last November the Smallholders' Party won a majority of seats in the Assembly. Since then the Hungarian Communists have led a campaign to nullify, or at least to modify, the election results. Following a demand by the Moscow radio for the "crushing of Hungarian reaction," the campaign developed into a powerful drive against the right wing of the Smallholders' Party. Early in March, following open leftist threats of violence, twenty of the more conservative Smallholders' Deputies to the Assembly were expelled from the Party. In return, the leftists promised certain concessions, including larger Smallholders' representation in provincial and local government, but these have not yet been put into effect.





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In June the leftists resumed their attacks on the Smallholders with demands for a further purge of "reactionaries." This time the Smallholders and their leader, Premier Nagy, presented considerably stiffer resistance. Nagy indicated in private his determination to refuse further demands, even at the cost of a cabinet crisis and a complete breakdown of coalition government.

On 28 June the Soviet Chairman ACC Hungary, without consulting the US or UK representatives in the ACC, accused the Government of violating the anti-fascist provisions of the armistice agreement and demanded the dismissal of several Government officials, abolition of organizations found to be aiding "fascist" elements, dissolution of Catholic and other youth organizations, and prevention of anti-Soviet propaganda by the Catholic clergy. The demands for anti-Catholic measures are attributable in part to the fact that the Catholic Church in Hungary, and particularly its leader, Cardinal Mindszenty, have recently formed a rallying point for many extreme anti-Soviet forces.

Premier Nagy, now confronted with an international rather than inter-party issue, conceded the majority of the Soviet demands. However, it is not certain that these concessions will either satisfy Hungarian leftists, or be accepted by the Smallholders without considerable defection among Nagy's supporters. The Hungarian Communist Party is apparently being pushed by its own left-wing leaders toward an open break with the Smallholders. Leaders of the Smallholders believe that the country is being "driven into two irreconcilable camps," and fear that a breakdown of coalition government might result in civil war and the retention of Soviet troops in Hungary.

The US representative ACC has protested the presentation of the Soviet demands without consultation of the US representative, and has requested that the Soviet demands be suspended pending three-power agreement in the ACC.

The New Rumanian Electoral Laws

The Rumanian Communists have prevailed upon King Michael to sign two Communist-sponsored laws, similar to measures proposed by





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Communists in France and Poland, providing for abolition of the Senate and establishment of voting procedures for the national elections, tentatively set for next September. The new laws, proposed by the Communist Minister of Justice and endorsed by the Soviet Chairman of the ACC Rumania, have been violently attacked by moderate and conservative opposition leaders, who claim that abolition of the Senate is unconstitutional and that the election laws are designed to facilitate fraud and coercion of the voters. Lengthy negotiations, resulting in several leftist concessions to the opposition, failed to bring the Communists and the opposition to agreement. Conservative leaders pressed the King to veto the laws, even at the cost of a break with the Communist-dominated Government and "open Soviet occupation" of Rumania, in order to force Anglo-American intervention.

However, King Michael was unwilling to provoke a major crisis merely on the ground that the proposed voting procedures would be subject to abuse and insure a Communist victory. (A Rumanian Communist leader is reported to have admitted to the King in confidence that in a free election the Communists would get only 20% of the votes.) The King felt that, regardless of the type of electoral law, the Government could still resort to corrupt practices to remain in power and hoped that by continuing a rear guard action now he may later be able to fight offensively.

## Progress of Qavam's New Party in Iran

Qavam's new party, "Democrats of Iran," appears to be enjoying phenomenal success in its preparation for the forthcoming elections. It is rapidly gaining adherents from all parts of Iran, outside of Azerbaijan, from both moderate and radical elements. Qavam has stated that his ultimate goal is to create virtually a one party system along Turkish lines, minus the fascist tendencies, and to maintain a neutral position between the USSR and the UK.

Qavam is presenting his party as the genuinely patriotic party of Iran. He has publicly rejected the support of extreme right wing elements but has welcomed and received the support of conservative and moderate elements which have interpreted his apparent pro-Soviet leanings and





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radical domestic program as merely a cloak for a genuinely conservative nationalism.

The position of the Soviet-dominated Tudeh with respect to Qavam's party has been somewhat unclear. Qavam's radical domestic program appears to have won over some Tudeh adherents and the Tudeh Party itself has intimated that it might even support Qavam if it were convinced of the sincerity of his reform intentions. Some Iranian observers have viewed the "Democrats" party as simply an element in Soviet penetration of Iran and Qavam as a tool (whether conscious or unwitting) of Soviet policy. A clear cut break between the Tudeh and Qavam's party, however, would refute this supposition. The Tudeh-sponsored strike against the Anglo-Iranian oil company and the strong repressive measures applied by Qavam suggest that actually a showdown between the Tudeh and the "Democrats" is underway and that a definite break may be in the offing. The terms of settlement of the strike are not yet available, but if the Government wins, it is believed likely that former Tudeh adherents may flock to Qavam's party.

There is as yet no indication regarding the Soviet attitude towards the growth of Qavam's new party. Should he achieve his objective of a virtual one party system, free from Tudeh domination, he would be in a vastly stronger position to resist unreasonable Soviet demands and to maintain a neutral position between the USSR and UK.

## Issue Drawn on Japanese Constitution

Unaware of the controversy over the Japanese constitution within the Far Eastern Commission and between the Commission and SCAP, the Japanese Diet is proceeding with its study of the draft constitution on the assumption that promulgation will take place six months after Diet ratification. Although SCAP has consistently maintained that both the success of his occupation and the orderly democratic development of the country are dependent upon maintaining the apparent Japanese initiative in all measures of reform, the Commission on 2 July issued a directive "on the basic principles for a new Japanese Constitution," which contained detailed instructions for the guidance of the Diet, including a provision that the Japanese people be encouraged to abolish the Emperor system or





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reform it along more democratic lines.

General MacArthur has protested strongly against the publication of this directive, and the Far Eastern Commission has agreed to a postponement pending further consultations. In agreeing to this postponement, however, the Commission has maintained "as a matter of principle" that its directive should be published at an early date. An issue has been drawn, therefore, which appears to offer little opportunity for compromise.

This conflict has been further complicated by the insistence of the Commission's Soviet member that the proposed constitution have the Commission's approval prior to its promulgation.

The entire system of Allied control is thus receiving a severe test and there is some fear that if the Commission obtains the publication of its 2 July directive, a violent reaction among the unsuspecting Japanese may so seriously confuse the political situation as to compromise the very success of the occupation.





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# SPECIAL ARTICLES

## 1. Extension of Civil War in China



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## EXTENSION OF CIVIL WAR IN CHINA

Despite declarations by Chiang Kai-shek and Chou En-lai that their forces would refrain from aggressive action on expiration of the truce agreement on 30 June, there has been a notable increase in the scale of China's civil war since that date. Both sides have persistently charged that their opponents have been violating the truce and have maintained that their own actions have been either defensive in character or justified by such violations. With mutual distrust increasing, and with peace negotiations stalemated, the present outlook is for an extension of civil war.

In Manchuria, the military situation is currently quiet, but both the Nationalists and the Communists have been utilizing the period of truce to build up reinforcements and supplies in strategic areas, in preparation for large-scale operations.

In North and Central China, an increasing number of clashes have been reported. Despite the Generalissimo's cease-fire orders, the Nationalists have been on the offensive in Shantung Province ever since late June and have succeeded in clearing practically all of the area along the railroad between Tsingtao and Tsinan. The Communists have launched several attacks along important communication lines and in the vicinity of key cities. Heavy fighting is reported in Shansi Province. The Communists have also advanced against the outer defenses of Tientsin and have further disrupted Nationalist supply lines by attacking several points south of Tientsin and Peiping, along the two main railroads leading to Manchuria. A tense situation exists above Hankow in northern Hupeh Province, where an estimated 60,000 Communists are encircled by 400,000 Nationalist troops.

Within the past week, areas of potential conflict have developed in Kiangsu Province, which contains the important rail junction of Hsuchou in the north, and the vital cities of Nanking and Shanghai in the south. The Nationalists have been maintaining one of the largest concentrations of their forces in the Hsuchou area, and tension has mounted there due to the nearby mobilization of about 100,000 Communist troops. Both the KMT and the CCP have charged that the other side is planning a "sweeping





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offensive" near Hsuchou. In southern Kiangsu, Communist troop movements have been accompanied by Nationalist press reports that CCP drives along the Yangtze River have begun, threatening Nanking and Shanghai.

While the Communists are continuing their attacks in North and Central China, they have shown growing concern over recent "Nationalist aggression," and Chou En-lai is reported to have made a special plea to General Marshall to halt the spreading civil war. The Nationalists, on the other hand, apparently have become less amenable to peaceful settlement and have called off contemplated conferences in Manchuria and Shantung. The KMT conviction of their military superiority is believed to have been strengthened by the consolidation of Nationalist positions in Manchuria and the victories in Shantung, and by the receipt of additional US ships, thereby increasing the Nationalists' ability to move their own forces.





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Political Alignment in Iran

Despite recurring reports that Qavam's health is failing, the Premier continues to dominate the political scene and has launched his own new party, the "Democrats of Iran." He still maintains silence on the date of the forthcoming elections, which was to have been announced late in June, but in the meantime has shifted provincial officials to increase his influence in the conduct of the elections. His new party, which probably will be spearheaded by government officials, has received the support of the new British-sponsored "agricultural union" in Khuzistan, at the head of the Persian Gulf, and of the Bakhtiari chiefs immediately north of Khuzistan. The moderate Iranian Nationalists and the left-wing Tudeh Party already have been forced into an opposition "Liberal Front," but have raised no significant issue against Qavam. The Tudeh Party, while publicly denouncing him in general as "reactionary," has intimated that they might support him if he shows a "genuine determination" to carry out reforms.

While Qavam clearly is committed in the long run to a middle-of-the-road course between the British and Soviets in Iran, he appears at present to be shifting away from the Soviets. He has recently arrested the prominent pro-Soviet Minister of Commerce and has released from prison an official who previously resisted the expansion of the Azerbaijan Democrats. Soviet officials in Iran are showing concern over the possible defection of the Tudeh Party to Qavam and have attempted to improve their relations with the Shah.

Meanwhile the Azerbaijan "Democrat" leader Pishevari still is in full political control in that province and appears likely to maintain his party's dominance in the elections. Although Pishevari now is engaged in a purge of disaffected left-wing extremists, who resented concessions made to Tehran in the recent Azerbaijan settlement, he can still count on their support in the election, as well as on peasant, labor, civil service and Azerbaijan army support. The only opposition that might defeat him would be formed from the educated classes, landowners and possibly the Kurds in Azerbaijan. Such an opposition, by exposing the intention of the Pishevari faction to have Azerbaijan absorbed in the Soviet Union, conceivably could win the support of a large but relatively less able group of Azerbaijan "Democrat" leaders.





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Dutch Call Conference at Malino

The Dutch are sponsoring a conference to be held at Malino in the Celebes on 15 July to "ascertain the views" of the NEI regional populations outside Java and Sumatra toward the structure of a future Indonesian state. The conference may be regarded as a move to consolidate Dutch control of the Outer Islands which, despite sporadic local opposition, are now almost exclusively under Dutch military occupation. Arrangements with SEAC to turn over full jurisdiction to the Dutch now are awaiting approval.

The Dutch will use the Malino Conference as a means of selecting Outer Islands representatives who will facilitate Dutch efforts at the later "Empire Conference" to build a Dutch-controlled "free state of Indonesia" comprising all the pre-war territory of the NEI. In their latest exchange of proposals Van Mook and Sjahrir agreed to hold the "Empire Conference," but failed to agree on the manner in which the Outer Islands should be represented at the Empire Conference. The Indonesian "Republicans" wish to permit the Outer Islands either to name their own representatives or to delegate their representation to the "Republic of Indonesia," which they claim has authority over all pre-war Indonesia. While the Dutch have officially endorsed this suggestion, they will continue to try to isolate the Outer Islands from Java and Sumatra and to insure that representatives of these islands are not Republican in sentiment.

The calling of the Malino Conference is a logical extension of the Dutch effort to limit the size of the "Republic of Indonesia" by refusing to recognize its control outside of Java until local popular desires have been determined, and by limiting their recognition of its de facto authority in Java to those areas not occupied by Allied forces. The extremists among the Indonesian Republicans, for their part, have denounced the Malino Conference as an example of Dutch imperialism.





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Korean Food Supply

Recent heavy floods have temporarily disrupted transportation and communications in South Korea and destroyed 20 percent of a summer grain crop which was already short of normal requirements. Government foodstocks are dangerously low, and some 5 million people are threatened with starvation. In order to prevent disease and unrest, Lt. General Hodge has requested minimum monthly shipments during July and August of 35,000 tons of grain and 30,000 tons monthly thereafter until domestic crops reach the urban markets in December.

This food shortage in South Korea further increases the difficulties of developing economic cooperation between the Soviet and US zones. The Soviets have repeatedly requested rice deliveries from the South on the plea that North Korea has always depended upon the agriculturally richer southern area for food. The present shortages in South Korea, therefore, reduce the bargaining power of the US in its attempt to persuade the Soviets to permit all of Korea to be treated as an economic entity.





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# SPECIAL ARTICLES

1. World Reaction to Bikini Operation
2. Italian Reactions to the CFM Decisions
3. Inflation in Shanghai



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## WORLD REACTION TO BIKINI OPERATION

World public reaction to the announced results of the first phase of the Bikini operation appears to indicate some reversal in the public's estimate of the US military potential, but there are no indications that the Governments of the world have been similarly misled.

Comments by the world press and radio have ranged from objective reporting to bitter attacks and deliberate misrepresentation. In general the undertone has been critical, and apprehension regarding the implications of atomic power in international relations has been widely expressed. However, in most instances, criticism appears to stem more from a sincere regret that emphasis is being placed on the development of instruments of destruction rather than from the natural jealousies of countries which do not possess the bomb. An exception, of course, is the USSR.

Only occasionally have press and radio treated the operation with unqualified favor. An unusually sympathetic press statement from Czechoslovakia asserts that Bikini was designed neither as a threat nor as a "demonstration of American might," but adds that the guidance of technical developments into beneficial channels is a prime responsibility of statesmen. In Switzerland, Socialist and Conservative papers seized the opportunity to support US policy on international atomic control. The Madrid radio was quite objective and pointed out that whatever the results at Bikini, the examples of Hiroshima and Nagasaki "still stand," and reminded its audience that the atomic bomb is still in the early stages of development.

However, some "neutral" comment was more outspoken. In Sweden, for example, the atmosphere surrounding the test, as exemplified by the "Hollywood pin-up girl" painted on the bomb, was not considered to be in good taste. Liberal papers in Stockholm deplored the advance "over-publicity" given to the bomb's possibly catastrophic effects, and expressed fear that the public may now be lulled into minimizing the threat of the atom bomb to world peace. French commentators are generally skeptical of the value of the test, but have demonstrated some nervousness by statements that the only atomic defense still lies in a world government armed with the bomb in order to insure adequate international policing.





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The British Empire provide all shades of opinion but comment is generally restrained. Australia and South Africa consider the operation to be of limited scientific interest, and usually display a "wait and see" attitude. In Eire comment is outspoken and critical, and some high Irish military officials even betray their mistrust of US policy by expressing the belief that the true force of the bomb was not displayed. Intellectual circles in the Empire affect to view the operation as a display of force designed to impress the world with the need for atomic control, while Nehru, President-Delegate of the all-India Congress, issued a blistering statement in which he condemned the test as an announcement by the US of its readiness to destroy any country which opposes its policy.

As usual, Communist papers throughout the world faithfully reproduced the copy provided by Moscow, with only slight local variations. The Soviet theme on US atomic policy and the Crossroad operation is substantially as follows: The United States has no intention of discarding the atomic bomb. The Baruch plan is designed to safeguard the monopoly of the US in atomic bomb production. Additional stocks of atomic bombs are being amassed. The US will not turn over control of the weapon to an international body until it has secured control of that organization, and, for that reason, proposes to disrupt the UN "principle of unanimity among the great powers" (a Soviet euphemism for the veto issue). The US is determined to impose a "Pax Americana" on the world, and the "vulgar" display of force demonstrated at Bikini was nothing but "diplomatic blackmail" designed to serve that purpose. Even the American public appreciates the failure of the test which followed the "fantastic" build-up. American Naval authorities and shipyard owners are jubilant over the failure and the resulting prospects of a continuing huge Naval establishment.

While obviously relieved that the atomic bomb did not display unexpected destructiveness, the Soviets still evidence nervousness. They suspect that the US Government has deliberately minimized the results in order to calm US opinion and to discourage foreign spies. Soviet spokesmen grudgingly admit that operations B and C will be more devastating, and, citing Hitler's one-time belief that he had superiority of armaments, they predict that the atomic bomb will "boomerang" and hit him hardest who used it first.





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The foregoing theme serves two contradictory Soviet propaganda lines. On the one hand, Moscow propaganda advances the argument that the US intends to keep the atomic bomb and is blackmailing the world into submission by the threat of annihilation. This accusation is apparently made in order to undermine US proposals for atomic control and to support Soviet opposition to the Baruch plan; but almost in the same breath, they belittle the technical effectiveness of the weapon.





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# ITALIAN REACTIONS TO THE CFM DECISIONS

The announcement of the Council of Foreign Ministers' decisions regarding the clauses on Trieste and reparations in the Italian draft treaty have been followed by apparently spontaneous and rather widespread demonstrations in Italy. These actions apparently stem from popular resentment directed primarily against the Western Powers rather than the USSR. The consistent Soviet support for Yugoslav claims to Trieste and Soviet demands for reparations had given the Italians little hope for favorable consideration from that quarter, but they apparently had expected "better treatment" from the Western Powers.

Anti-British feeling actually has been mounting in Italy for several months, largely over the colonial issue. Anti-French sentiment flared up anew when it became apparent that the cession of Tenda and Briga to France was certain. Italian bitterness against the US emerged last, following the compromise agreements on reparations and Trieste, and arises from a sudden frustration of hopes that the US could be relied upon to look after Italian interests at the Peace Conference.

The present attitude of the Italian people toward the Western Powers is in part the result of disappointment that Italy did not win better terms at the Council of Foreign Ministers. It is also the result of a clever Communist campaign to minimize Soviet responsibility for unfavorable CFM actions, to shift the onus to the Western Powers and to exploit the historic sources of friction between Italy on the one hand and Austria on the other. The Soviet position on Trieste and reparations posed a difficult problem for the Italian Communists, but they have dealt with it skillfully by either ignoring or playing down Soviet demands and exploiting instead the frontier and colonial issues on which the desires of certain of the Western Powers have run counter to Italian aspirations. Feeling in both France and Italy over Tenda-Briga was stimulated to an intensity which has been out of all proportion to the value of the area to either country. In order to counterbalance the unfavorable Soviet position on Trieste, Italian Communists exploited Soviet support of the Italian claim to Tenda-Briga. Similarly the Communists and Soviets have made





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considerable capital of the award of Austrian territory to Italy. They have apparently succeeded in convincing many Italians that US support has failed them on all major treaty questions and that the "only treaty decision in their favor"--the Austrian frontier--was primarily due to Soviet support.

The CFM decisions add considerably to the obstacles to the formation of a stable new Italian Cabinet. The problem already was complicated by the failure of any one party to gain a majority in the recent elections for the Constituent Assembly and the fact that leftist and rightist strength is evenly divided. It is now made increasingly difficult by the fact that all parties are reluctant to take a prominent position in a Government which may be forced to sign an unpopular peace treaty.

President de Nicola has requested retiring Premier de Gasperi, leader of the Christian Democrats, to form a new cabinet, which will reflect domestic political compromises acceptable to the three major parties (Christian Democrats, Socialists and Communists). Although de Gasperi may continue as Premier and Foreign Minister, the Christian Democrats would like to be relieved of the Foreign Ministry.

Further deterioration of the Italian economy and increasing popular loss of faith in the Western democracies would tend to weaken the groups which stand for parliamentary democracy and encourage a swing either to the extreme right or left.

The Communist Party will seek to stimulate further resentment toward the US, Great Britain and France and to win support for the concept that Italian recovery can be achieved only through closer cooperation with the USSR. The Rightists on the other hand may be expected to exploit the dangers of Soviet domination and to advocate monarchy as the sole means of safeguarding Italian independence.

Several factors, however, should militate against an extremist solution to Italy's domestic problems. The Italian people have freely chosen a Parliament which has indicated its determination to write a constitution and expedite the rehabilitation of the country. Both the Left and Right apparently recognize the need for real compromise on





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basic social and economic issues. The Vatican will continue to support the Christian Democrats as the best guarantee of the "Christian tradition." Although the Western Powers have incurred considerable Italian ill-will, most Italians realize that the material aid for reconstruction can come only from this source, particularly from the US.





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## INFLATION IN SHANGHAI

Rocketing price levels, and a continuing flight from China's badly inflated currency into commodities, securities, gold, and foreign exchange, have violently disrupted living conditions and economic activity in Shanghai since the National Government regained control of the city in September 1945. The rise in prices and living costs to astronomical levels in terms of the local currency can be attributed directly to prolonged shortages in nearly every type of product, to a growing distrust of the Chinese National dollar, and to political uncertainty. These factors in turn have encouraged speculative hoarding, black market dealings, and general corruption throughout the city.

Retail commodity prices have experienced especially sharp advances since the beginning of this year, and have been subject to unpredictable and violent fluctuations. Rice, for example, jumped to CN $68,000 per 172-lb. unit in mid-May, and in the next 30 days fell to about CN $50,000 owing to municipal controls; at the latter price, however, the cost of rice was still 5 times as high as the January level.

The inflation of prices has inflicted severe hardships on all wage workers and salaried employees in Shanghai. Between December 1945 and May 1946, the general cost-of-living index for Shanghai workers more than quadrupled; for such workers, it now requires about CN $4,000 to purchase what CN $1 would have bought in 1936. Although basic wages have frequently been raised (to such an extent that high labor costs are cited as one of the important deterrents to industrial improvement), these wage increases have failed to keep pace with the rise in prices, and the city has witnessed serious labor unrest and a series of strikes.

US dollar prices for goods and services in Shanghai have also risen appreciably since late 1945, owing to overvaluation of the CN $ vis-a-vis the US dollar, and a substantial increase in living costs for Americans in the city has taken place. In April the American Consulate General at Shanghai reported that "the highly inflated price structure stands at a point from 3 to 20 times the price level in the US in terms of US dollar values at current exchange rates." That situation apparently has not improved in more recent months.





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Excessive costs of labor, capital, storage and transportation, and wild gyrations in these costs, have contributed to slowing down the revival of industrial activity in the Shanghai area. Even more acute, however, is the critical shortage and high cost of industrial raw materials and fuels, resulting from the destructive looting of raw material stocks and machine tools that followed the Japanese surrender in September 1945, and from the breakdowns in communication since then. Replenishment of Shanghai's dwindling supplies of materials and fuel from the interior has been disrupted by hostilities between CCP and KMT forces and from ensuing blockades.

There has been some increase in overseas imports, consisting mainly of UNRRA shipments and of goods purchased by the Government against US credits, but the distribution of such goods to consumers has been interrupted by serious congestion in the port of Shanghai itself. Unloading of ocean-going vessels is delayed by the necessity of using slow-moving lighters, by the chronic overcrowding of warehouses and dockspace, and by innumerable administrative delays in clearing with port authorities. Owing to exorbitant fees for lighterage, storage, and customs, the cost of moving goods from ships in port to various parts of the city has risen drastically, at times exceeding the cost of transportation from New York to Shanghai.

The growing lack of confidence in the Chinese National dollar may be attributed to the enormous increases in national budgetary expenditures required to maintain the Nationalist armies, and to the continued financing of the fast-rising budgetary deficit by printing and circulating new banknotes. As compared with total national expenditures of CN $1,300 billion in the full year 1945, expenditures in the first five months of 1946 alone have totaled about CN $1,800 billion; of the latter amount, military expenditures probably account for over two-thirds. The national deficit, aggregating CN $1,00 billion in 1945, has exceeded CN $1,400 billion for the period January-May 1946. The national banknote issue, which stood at about CN $1,000 billion at the end of 1945, has by now probably passed the CN $2,000 billion mark. There has been wide circulation in Shanghai of rumors that the National Government will issue a new "Sun Dollar" in September. Uncertainty over the prospective conversion rate between the present currency and the new unit has given impetus to speculation and hoarding.





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With manufacturing and trade elsewhere at a low ebb, as much as 80% of China's industrial and commercial activity is estimated to be concentrated in Shanghai; and business activity there can be regarded as a barometer of the economic life of China. The inflation now rampant in Shanghai exists to greater or lesser degree in all other Chinese urban centers. An increase in foreign imports may help to stabilize the economy, but permanent improvements must wait upon the achievement of internal peace, a thorough reform of China's fiscal policies and governmental personnel, and upon the restoration of industrial and commercial activity throughout the country as a whole.





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Agreement at the Council of Foreign Ministers

The Council of Foreign Ministers reached agreement by compromise this week on all fundamental unresolved issues in the Italian draft and set a date for the Peace Conference. Some of the economic clauses in the Balkan and Finnish drafts, including the question of Danubian navigation, remain to be settled and the German and Austrian questions have not yet come up for discussion.

After prolonged and often heated debate the Ministers have at last found acceptable formulae for settling the issues of Trieste, Italian reparations and Italian colonies. The quadripartite decision to internationalize the Trieste area and place it under United Nations control was the product of a French proposal, a Soviet counter-proposal and general compromise. Britain and the United States abandoned their efforts to keep Trieste for Italy or to submit the question to the Peace Conference, but successfully insisted that an internationalized Trieste should be under control of the United Nations. Under strong pressure from the Western Powers, the USSR successively abandoned its insistence that Trieste go to Yugoslavia, its later proposals for an autonomous state under Yugoslav control or a dual sovereignty arrangement, and finally its demands that an internationalized Trieste be placed under the control of a four-power council. All eventually accepted the French ethnic line as a compromise demarcation for Italy and Yugoslavia in Venezia Giulia.

The compromise settlement on reparations met Soviet demands for payment by Italy of $100,000,000 and permits the major part of this figure to be realized from current production over a seven-year period. The Western Powers also yielded to Soviet insistence that the USSR's share of surplus Italian warships should not be counted as reparations. The solution for the Italian colonial issue represented a concession to British and French insistence that they be permitted to administer without interference, during the one-year period, the pre-war Italian colonies





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which they occupy, and a retreat by the Soviets from their insistence on the establishment of a four-power Advisory Council. The decision to set 29 July as the date for the Peace Conference was reached under Secretary Byrnes' vigorous prodding after agreement had been achieved on all major unresolved issues in the Italian draft except reparations. Subsequent concessions by the Western Powers on reparations in effect matched this substantial recession from previous Soviet refusal to set any date and a last minute Soviet offer to agree either to 1 or 15 September.

## Increased Tension in Venezia Giulia

Coincident with consideration of the Trieste problem by the Council of Foreign Ministers there has been a marked increase of tension in Venezia Giulia. In Trieste demonstrations and counter-demonstrations have led to serious rioting. Although a deliberate Yugoslav military attack still seems unlikely *, rioting in Trieste might be preliminary to, or might provoke, an attempted Yugoslav coup de main within the city. In such an attempt there would be grave danger of a progressive deterioration of the situation leading to open conflict between Yugoslav and Allied military forces.

Since March Yugoslav strength in and immediately adjacent to Venezia Giulia has stood at 60,000 men. No recent reinforcement is apparent; in particular, a strategic reserve in the Ljubljana-Zagreb area (such as would be required for aggressive military operations) is still lacking. The only Yugoslav forces available for fairly rapid reinforcement of Venezia Giulia are from 15,000 to 28,000 men deployed in the Sava Valley eastward of Zagreb.

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* See Weekly Summary No. 1, p. 8.





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## Political Tension in Bulgaria

The political situation in Bulgaria has grown more critical as intensified efforts by the Communist-dominated coalition Government to consolidate its control over the country have met with increasing resistance from the opposition. A Government campaign of intimidation and unprecedented violence is now under way, and the opposition is reported even to be preparing for possible armed resistance. Both groups have been impelled by the same factors: the anticipated general elections this fall, prospects of the withdrawal of Soviet troops when a peace treaty has been concluded, and the moral support given the opposition by the Western Powers.

Before the Soviets withdraw their troops, they must establish permanent safeguards for their own strategic, political, and economic interests, including a stable and subservient, or at least friendly, regime. Soviet interests, however, also dictate that these aims be achieved without provoking civil war.

As a new step in that direction, therefore, the Soviets have set about to neutralize the Bulgarian Army which under its present leadership has exercised a major restraining influence on Communist policy. By giving political commissars authority over troops equal to that of operational commanders, effective control of the Army is being transferred from the Conservative Minister of War to Communists in the Government and a thorough purge of all non-Communists in the ranks is imminent. This purge probably will be successful because the presence of Soviet occupation troops would forestall any effective resistance. In addition, the Soviets are reportedly preparing to assign technicians to the Army who would be competent to take over Bulgarian military establishments in the event of internal unrest after Soviet troop withdrawal, and are infiltrating into the country large numbers of Soviet citizens both as administrators of Soviet-acquired German property and as civilian members of the NKVD.

These measures may give the Communists sufficient security to permit them to relax the rule of terror and, as a bid for recognition by the Western Powers, they may offer the opposition more favorable terms for participation in the Government.



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## Political Prospects in France

The new French Government is expected without great difficulty to draft a new Constitution and ratify the US-French financial agreement, but the third major domestic problem which it faces -- the wage-price issue -- may produce a Cabinet crisis before autumn. In the face of their defeat in the recent Constitutional referendum and the strength of the MRP-Socialist combination, the Communists are not expected to repeat their previous intransigeance on the Constitutional issues. While they can be expected to oppose the financial accord, they cannot block it. In the wage-price issue, however, the Communists hold a strong position by virtue of their control over France's all-powerful General Confederation of Labor (CGT), which represents 5,000,000 wage earners and civil servants.

The CGT recently reiterated its demand for a 25 percent pay increase. While it subsequently indicated its acceptance of President Bidault's offer of raises averaging 15 percent, the issue remains unsettled, at least pending the outcome of an officially sponsored conference on wage-price adjustments. The Government recognizes the validity of the CGT pay demands, but it also recognizes that such demands cannot be met short of serious inflation, unless proper overall financial and economic controls can be devised and instituted. Bidault can only solve this problem if he has Communist cooperation. Whether the Communists will give him that cooperation or paralyze the country by strikes and bring down the Government remains to be seen. In order to win support in the fall elections and to escape popular disapproval for precipitating an economic crisis, the Communists may decide to support Bidault's domestic financial policies. On the other hand, international considerations and the voice of the Kremlin may dictate otherwise. In any event, the ability of the CGT to create serious difficulties for Bidault gives the Communists considerably greater power in the Government than their numerical representation or the relative strength of their adherents would indicate.





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Mexican General Elections

The Mexican general elections on 7 July are expected to continue in power the traditionally dominant Institutional Revolutionary Party (PRI). The victory of the PRI's militantly nationalist Presidential candidate, Miguel Aleman, appears certain. Aleman has the backing of the present Camacho administration, organized labor and at least three other parties, including the Communists.

The strongest of the other three candidates is Ezequiel Padilla, a conservative pro-US member of the Mexican Democratic Party (PDM), the leading opposition party. Padilla appears to have a large popular following, but his party is less well organized than the PRI, and the PRI dominates the Federal Commission of Electoral Supervision. The pre-election campaign has been marked by some violence and more is expected on election day. The Army, which appears to support Aleman, is expected to maintain order. The possibility of a Padilla revolution following an Aleman victory is not considered great.

Aleman's election is expected to result in increasingly nationalist Mexican policy and the growth of Communist influence. Aleman will probably limit his cooperation with the US to the Hemisphere Defense Plan, and pay increasing heed to his supporters in organized labor and among the Communists. His election likewise may encourage the growth of the Communist-dominated Latin American Federation of Labor (CTAL) under the leadership of Vincente Lombardo Toledano, which promises to become an increasingly important vehicle for the spread of Soviet influence throughout Latin America.





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Anti-US Propaganda in China

Anti-US propaganda in China recently has increased sharply. The theme -- originally sponsored by the Communists -- that US intervention is solely responsible for the prolongation of civil war now has been taken up by the "CC clique" of the Kuomintang, conservative elements in the Army and a newly developed anti-civil war movement which finds its support chiefly among students, businessmen and intellectuals. This campaign for a US withdrawal from China appears even to involve a measure of collaboration between the Communists, the CC clique and Army elements, and a tendency to exploit the politically unsophisticated elements in the anti-civil war movement through mass meetings and demonstrations.

These divergent political groups clearly are collaborating in this attempt to exploit anti-US feeling in order to advance their own individual political programs. This trend may be indicative of a fundamental unwillingness to permit a peaceful settlement under US leadership which would necessarily involve serious compromises on the part of all groups. Under such circumstances the outlook for a successful termination of General Marshall's mission appears increasingly dark.





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## The US Base Question in the Icelandic Election Campaign

The 30 June elections for the Icelandic Althing (Parliament) are expected to complicate US efforts to continue in peacetime the operation of strategic establishments in Iceland including Meeks Field. While the elections are not expected to change materially the composition of the present coalition Government, they may result in a Government decision to "terminate" the wartime agreement on US bases and demand the withdrawal of US troops.

In their pre-election campaign the Communists have appealed to the electorate on patriotic grounds to support an immediate ban on base leases to all foreign powers and to demand a US withdrawal. Communist officials within the Government directly concerned with civil aviation reportedly intend to launch a public campaign following the elections to show that Iceland does not need Meeks Field to meet its domestic needs or international responsibilities, but can adequately handle both domestic and international traffic by expanding Iceland's own Reykjavik airport.

While other political groups prefer not to have the base issue injected into the election campaign and have been forced by Communist strategy to touch on the issue, no party with political influence actively favors base leases to any foreign country.

Public sentiment likewise is in principle opposed to the existence of foreign bases in their country in peacetime. Thus self-seeking Premier Olafur Thors would run no political risk by adding the Communist proposals to his Government's platform and has already publicly hinted that he will take up with the US the question of troop withdrawal.

The astute and aggressive Communist appeal to Icelandic patriotism on a popular though delicate issue is expected to improve the standing of the Communist Party in the public mind and to soften any popular impression that it is following the "Moscow line." In order to counter Communist strategy Legation Reykjavik has proposed that the US not await the formation of the new Government before making a new official approach, but immediately following the elections offer to Premier Thors modified proposals phrased to emphasize





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Icelandic self-interest in permitting US personnel to maintain existing US-operated installations until qualified Icelandic replacements are available.

## Political Tension in Greece

In recent weeks the pro-Royalist Government of Greece has resorted to increasingly drastic measures to consolidate its control of the country and to combat the growing opposition among Greek leftists, moderates, and non-Royalist conservatives. Early in May large numbers of non-Royalists were removed from key positions in the armed forces and civil security organs, and were replaced by Royalists and prominent supporters of the former Metaxas dictatorship. Simultaneously the Government revived a 1924 security law which had been one of Metaxas' chief instruments for silencing the opposition.

This was followed last week by a new law suspending a number of constitutional guarantees, including that against imprisonment for an indefinite period without trial. New summary courts were empowered to sentence to death persons interfering with the police as well as "moral authors" of action against the state. There is to be no recourse against the decisions of these courts and death sentences are to be carried out immediately. Wide-scale arrests are already reported to be taking place under the new law, which has been denounced by the leftist press as the "open establishment of fascism in Greece," and by moderates as a Government "excuse to wipe out its political opponents."

These measures have accentuated the political trend in Greece towards the extremes of Right and Left. The many small non-Communist and non-Monarchist groups which support a moderate republican form of government are finding it increasingly difficult to maintain a middle-of-the-road position in the face of strong pressures from the well-organized Right and Left. Some will be increasingly compelled to affiliate themselves with one of the two extremist organizations, and if the Royalist authorities persist in their efforts to restore the Greek King, many of the moderate republicans may have no alternative but to cooperate with the Communist-dominated EAM. The active Monarchist following at present appears to be almost three times as great as that





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of the Communists. The extent to which the impending moves from center to Right or Left will alter this ratio is still uncertain.

So long as Monarchist strength exceeds that of the Left and British troops remain in Greece, a recurrence of civil war appears unlikely. However, leftist bitterness is increasing and sporadic outbreaks of violence by Leftist and Royalist groups may be expected to continue. Any substantial increase of violence would be embarrassing to the British, who for commercial and strategic considerations might be compelled to use British troops to maintain order and in effect give armed support to a Government whose policies they do not wholly approve. The extremist actions of this Government likewise serve as an irritant in British-Soviet relations, since they lend themselves to exploitation by the Soviets as "fascist" implementation of British imperial policy.

## The New French Government

The importance which the French Communists attach to their continued participation in the French Government was demonstrated last week when the Party agreed to join the new Bidault Government without obtaining full satisfaction for the demands which they had made as a condition for participation. Within the week which preceded the announcement of the new Cabinet the Communists indicated that they would not participate unless the Presidency was given to a Socialist or Communist, the Communists were granted one of the key ministries and assurances were forthcoming that the new Government would accede to the CGT demand for a general 25 percent wage raise and increased allowances. Of these conditions only the last was met, and that only in part, when Bidault expressed approval of wage increases averaging not more than 15 percent.

The Communist decision to relinquish most of their demands was apparently based on a realization that their abstention would have prevented Bidault from forming a Government and thus might not only have subjected them to charges of sabotaging French recovery but also have produced such chaotic political conditions as to bring De Gaulle back to power. The Communists do not appear willing to risk





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either of those eventualities. Moreover the Communists appear to recognize that they can probably better influence decisions on French foreign as well as internal policy by being in the Government.

The new Government differs little from the last. Fifteen members of the Cabinet are holdovers, and the proportional representation of the MRP and the Communists has increased only slightly. The MRP has forthrightly assumed the responsibilities of the leading party by taking the Presidency and the important Ministries of National Economy and Finance, formerly held by the Socialist Party. The Communists obtained no key Ministry, although they received one new portfolio (Public Health) and retained control of the industrial "bloc." The Socialist Party maintained its refusal to accept either the Presidency or important Ministries, excepting Interior, and its representation in the Cabinet is somewhat reduced.

## Chinese Communist Attacks on the US

Concurrent with intensified attacks on the US, Chinese Communist leaders have rejected a National Government proposal that General Marshall act as arbitrator in the present civil strife and have demanded that the US immediately cease military aid to the National Government and withdraw US forces from China. These Communist moves will weaken General Marshall's position in negotiations between the Communists and the National Government and further decrease the likelihood of any immediate solution to China's internal difficulties. Negotiations during the eight-day truce extension have produced no promising results and fighting is expected to resume when the truce expires on 30 June.

Sustained Communist attacks on US "imperialist" policy in supporting the KMT have for the first time been accompanied by personal attacks on General Marshall, charging him with "failure" to stop the lift of KMT troops to Manchuria. These attacks, in line with consistent Communist efforts to minimize Nationalist capabilities and successes, appear to be an effort to attribute to US support expected new Nationalist military gains. Chiang Kai Shek recently has reinforced his troops in Shantung province by air lift to Tsinan





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and water movement to Tsingtao. Concurrently his navy has taken several strategic islands lying between Shantung and Liaotung and may be preparing to occupy the important ports of Chefoo and Weihaiwei. Nationalist forces thus may be in a position to achieve successes in Shantung comparable to those in Manchuria which carried their armies as far north as the Sungari River.

Political Crisis in Chile

The death of President Rios, although long expected, will precipitate a crisis in the already confused political situation in Chile because of the inability of the Leftist majority to agree on a candidate. Under the Constitution, the Vice President must announce the date of the new presidential election within ten days of the death of the President and the elections must be held within sixty days of the announcement.

Since January, when the Communist-inspired general strike forced a reorganization of the Cabinet, the Communists have refused to support Vice-President Duhalde as the Leftist candidate. Duhalde is known to aspire to the Presidency and, according to rumor, even has considered a coup to attain his aim. No Communist candidate acceptable to other factions of the Left has so far emerged.

The Rightists, while numerically inferior, are less divided than the Left. They may well agree upon a candidate and win the election. The most likely Rightist choice is Jaime Larrain (Agrarian), though the Right might propose the aged former President Alessandri in order to attract support from moderate groups.

Under these conditions, pre-election activities may lead to violence, but the armed forces will endeavor to maintain order and a coup appears unlikely.





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## Initial Meetings of the Council of Foreign Ministers

The Council of Foreign Ministers, by its agreement to postpone for one year a decision regarding the Italian colonies, has disposed of one of the three unresolved issues in the Italian draft treaty but deliberations on the reparations issue have as yet reached no solution. The third and most contested issue, that of Trieste, has not yet come up for discussion.

Soviet concurrence in postponement of the colonial issue represents a recession from the previous Soviet position that the Big Four must reach agreement on all points in the Axis satellite treaties before they are submitted to a Peace Conference. The Soviets, however, have shown no similar inclination to modify their position on Italian reparations. Instead, by refusing to abandon their reparations claims, by insisting upon the use of current production for reparations account and by seeking opportunities for unilateral action with Italy on treaty implementation, the Soviets are making concerted efforts to obtain a basis for long-term interference in Italian affairs.

French demands that current Italian production be available for reparations over an eight-year period parallel the Soviet position but not the Soviet intent.

In an apparent effort to create a further excuse for interference in Italy, the Soviets at the opening meeting insisted that the Italian political situation be added to the agenda on the grounds that it constitutes a threat of civil war and is directly connected with the question of a draft treaty. The Ministers agreed to take up this point as the last item on the agenda, but the Soviets may again press to have it taken up out of order.

Soviet agreement that Austria be placed on the agenda for the current CFM session at present represents only a limited concession. Molotov has so far agreed to the US proposal only if discussion is concerned with the Austrian "question" and not an Austrian peace treaty.





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## Issues in the Polish Referendum

The Polish referendum on 30 June, originally proposed by the Left as a means of deferring national elections, is expected to play a decisive role in determining the future extent of Communist influence in Poland. The Leftist parties which control the Government suggested a referendum on "non-controversial" questions when, in April, it became apparent that Mikolajczyk's Peasant Party would not join them in a single electoral bloc. The Leftists expected Mikolajczyk to support them in the referendum vote and hoped that the resulting overwhelming popular endorsement of their policies would give them more time before the elections to consolidate their control over the country and force Mikolajczyk's acceptance of the single electoral list. Two of the questions -- those concerning the Oder-Neisse line and a program of land reform and the nationalization of industry -- are in effect non-controversial, but a third involving the elimination of the Senate has become the subject of bitter dispute.

Encouraged by the outcome of the French constitutional referendum of 5 May, which also included the issue of a bicameral legislature and became in effect a plebiscite on Communism, the Polish Peasant Party decided to force a showdown with the Leftist parties by advocating a negative vote on the abolition of the Senate. Mikolajczyk has become increasingly convinced that the Leftists are determined to use the referendum results to discredit his party and possibly even to expel it from participation in the Provisional Government. He has been concerned by the Government's avowed intent to interpret an affirmative vote on a unicameral legislature as, in effect, an amendment to the 1921 Constitution which the Government is pledged to support and which provides for a bicameral legislature. Such an interpretation would eliminate Senatorial elections this fall and would serve as a precedent for further constitutional changes designed to keep the Leftists in power.

The Leftists apparently are considerably disturbed by the conflict which Mikolajczyk has provoked. They are insisting that a defeat of the referendum will not be tolerated, have intensified their ruthless oppression of opposition elements, and apparently are making preparations to stuff the ballot boxes. Whatever the outcome of the referendum, it appears improbable that the Leftist majority in the Government will feel it can risk violence by expelling Mikolajczyk's party. The danger





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of violence also is lessened by recent indications that Moscow has ordered a more conciliatory attitude toward Mikolajczyk. Civil war in Poland at this time clearly would endanger Soviet long-range interests and the Soviets may well feel that Mikolajczyk would prove less of an obstacle to Soviet policy if he were in a position of power rather than leader of the opposition. Mikolajczyk has consistently tried to convince Stalin that, if he were given power, he could guarantee a more stable, popular and reasonably pro-Soviet regime than could the Polish Communists.

## French Negotiations with Indochinese States

The conference between representatives of the French Government and the Republic of Viet Nam, which opens in Paris on 25 June, may produce the first post-war settlement of the status of former colonial possessions in Southeast Asia. While nominally concerned with French-Viet Nam relations, the conference is expected to define the future French position in Southeast Asia. Issues to be resolved include the question of an Indochinese federation and the disposition of rich Cochin-China.

Much of the groundwork for establishing the new relations between France and Indochina already has been completed. During the past nine months, the French have sought to reach separate settlements with the component countries of Indochina. To date they have reached agreement on Cambodian autonomy with French control of foreign relations, the formation of an independent Republic of Cochin-China, the restoration of the King of Laos (who has promised his people constitutional government), and recognition of the Republic of Viet Nam.

French recognition of Cochin-Chinese independence has aroused violent opposition from Viet Nam which demands this rich area for itself. Though the French have reiterated their intention to conduct a referendum on the issue in Cochin-China, their recognition of Cochin-Chinese independence lends some weight to the suspicion that they are following a policy of divide and rule. The existence of separate kingdoms prior to the French arrival in the 1850's, however, offers historical basis for the French approach. The French hope to establish within the French Union an Indochinese federation of semi-autonomous





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states under a French High Commissioner who would have relatively broad coordinating powers. The French are expected to oppose the inclusion of Cochin-China in Viet Nam because such a step would make Viet Nam by far the strongest state and permit it to dominate any federation. Viet Nam's position in the negotiations may be weakened by the fact that Ho Chih Min, head of the Viet Nam delegation to Paris, is the only leader capable of holding together the various factions in the Republic and his absence may permit sharp political cleavages to develop at home.

US Countermoves in Korea

Soviet actions since the Japanese surrender indicate a determination to bring Korea within the Soviet orbit as a Communist dictatorship. Under the guise of establishing a country "friendly" to the Soviet Union which cannot become a "base for attack" on the USSR, the Soviets are seeking to implant Communism firmly in Soviet-occupied northern Korea, to strengthen the Communist Party in the US-occupied zone by clandestine means, and to establish a provisional government controlled by the minority Communist elements.

The US on the other hand has been seeking to set up a democratic government representative of the wishes of the majority of the population. The Soviet and US representatives on the Joint Commission, appointed to set up a provisional government for Korea, therefore have been unable to reach agreement, and after several months of futile deliberations the sessions of the Commission were adjourned on US initiative. The deliberations were deadlocked over the Soviet demand that opponents of the Moscow decision on an extended trusteeship be excluded from consultation in the formation of an interim government. Since non-Communist elements have in general opposed the trusteeship plan, US acquiescence on this point would have resulted in the formation of a Soviet-dominated Communist regime.

The failure to establish a provisional government has had serious economic consequences. The present dual occupation of Korea bisects an economically integrated country, and the continuance of a





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rigid enforcement of this zonal delineation is hindering the economic rehabilitation necessary to effective self-government. Both the US Commander and non-Communist Koreans view this situation with real concern.

Since the adjournment of the Joint Commission, the US Commander has been making determined efforts to build up the political strength of democratic elements in southern Korea, to prevent Korean Communist infiltration from the northern into the southern zone, and to fix on the USSR responsibility for failure to establish a provisional government and eliminate the zonal barriers. In these objectives General Hodge appears to be attaining a certain measure of success. Soviet policy has aroused strong opposition from all Korean groups except the strong Communist-controlled minority, and the vigorous US efforts to block Soviet attempts at political domination of the country have met wide popular support. Rightist and Leftist leaders in southern Korea, with US encouragement, have recently been conducting negotiations with a view to forming a strong coalition that could assume greater responsibility in the administration of southern Korea. The major parties in this coalition may shortly make a common declaration of amity, and request that the Joint Commission resume deliberations and consult with all democratic parties without exception or exclusion. Should this coalition movement of the southern Korean parties succeed, the US may be able to force a joint solution that would not leave the Communists in initial control.

The Soviets have obviously been following a policy of outstaying the US, hoping that their persistent obstruction to a joint solution for Korea would eventually induce the US to forego its aims and withdraw from the country.





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# SPECIAL ARTICLES

## 1. ~~Jewish Armed Organizations in Palestine~~



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## JEWISH ARMED ORGANIZATIONS IN PALESTINE

The British Government has made the disarmament and disbandment of illegal armed organizations in Palestine a prerequisite to the admittance of 100,000 Jewish immigrants as proposed by the Anglo-American Committee of Inquiry. Since it is unlikely that this condition will be met, the British attitude serves to delay and possibly to prevent implementation of the Committee's recommendations. Meanwhile certain illegally armed Jewish elements in Palestine have expressed their impatience by renewed resort to violence.

The original and by far the largest of the Jewish armed organizations in Palestine is the Hagana which was formed in the early days of the Mandate as an unofficial home guard for the defense of Jewish settlements against Arab forays. Its principal present activity is the execution of diversionary attacks to cover the illegal entry of Jewish immigrants. It enjoys the support of the Jewish community and, although nominally subject to direction by the Jewish Agency, tends actually to dominate it. The Hagana, however, is amenable to influence by world opinion and consequently exercises greater restraint than do its extremist offshoots, the Irgun and the "Stern Group."

The Irgun Zvai Leumi b'Eretz Israel (National Military Organization of the Land of Israel) was formed ten years ago by radical Zionists who held that sabotage and terrorism were the only effective means of obtaining the establishment of an independent Jewish state including both Palestine and Transjordan. Although it exercised restraint during the war, it has resumed its terroristic attacks on the British regime. The Irgun is not confined to Palestine; it has branches in other countries, particularly in Poland, and its leadership is Polish. It replenishes its treasury by extortion, robbery, exaction of exorbitant fees for effecting illegal entry into Palestine, and diversion of contributions for the relief of European Jews. Its interest in immigration seems to be primarily in the procurement of able-bodied recruits rather than in the relief of Jews not qualified for military service.

The "Stern Group" is composed of Irgun extremists who refused to suspend hostilities against Great Britain during the war. Assassination is their specialty.





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Although these three organizations differ in their tactics, their ultimate objectives are compatible and operational liaison exists between them.

The current active and reserve strength of the three organizations is estimated at approximately 100,000 trained men and women. The Hagana maintains an organized, but static, militia numbering some 80,000 and a permanently mobilized and motorized force of 5,000. The Irgun's strength is estimated to be about 7,500, and that of the "Stern Group" to be about 450.

The admittance of 100,000 immigrants would provide an estimated 40,000 potential recruits for these organizations. In addition the illegal entry of up to 60,000 immigrants, most of whom will have had both military training and ideological indoctrination, may be expected during 1946. From these two sources the strength of the three Jewish armed organizations could be approximately doubled.

The three organizations are fairly well provided with small arms and explosives, but lack heavy weapons and aircraft. They could not long openly resist the British forces presently in Palestine, if the British were utterly ruthless in shelling and bombing Jewish towns and villages. However, since the British cannot resort to such tactics without shocking world opinion, their theoretical capability to overwhelm the Jewish armed organizations becomes irrelevant. Under the limitations imposed by this consideration, the British would find it virtually impossible to maintain order in Palestine with present forces in the face of concerted Jewish guerrilla attack.





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# WEEKLY SUMMARY

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## Soviet Propaganda Attacks on the US and UK

Increasing Soviet propaganda attacks on the United States and Britain reached a high point this week in the Moscow press denunciation of Secretary Bevin's 4 June foreign policy speech. Bevin was accused of making "psychological preparation for complete withdrawal from the established principles of Allied cooperation," and of using "pressure and threat" to force Soviet acceptance of Anglo-American proposals at the coming Paris Conference of Foreign Ministers. Similar Soviet accusations have recently been made against US foreign policy.

The immediate tactical purpose of the current Soviet campaign is twofold: to exert pressure on Bevin and Secretary Byrnes, by convincing the British and American people that present Anglo-American policy may lead to a break with the USSR; to prepare Soviet and foreign opinion for a possible break-down of the Paris Conference, by placing the blame in advance on the Western Powers. An additional motive for accusing the Anglo-Americans of preparing for "withdrawal from . . . Allied cooperation" may be to prepare world opinion for unilateral Soviet action in areas of Allied disagreement, on the ground that the Western Powers themselves have already abandoned cooperation in favor of "pressure tactics."

The present Soviet campaign follows a propaganda barrage of several months' duration against Anglo-American "imperialism" and the allegedly hostile designs of "reactionaries" in the United States and Britain. During this period the emphasis of Soviet attacks, which had been directed chiefly against Britain in an apparent attempt to drive a wedge between that country and the United States, shifted to equally strong denunciations of both countries. Increasing emphasis has been placed upon US designs for bases throughout the world and President Truman's labor policy has been played up as indicating a "reactionary" domestic trend in keeping with US "imperialism."

These attacks are a logical development of the basic Soviet contention that the USSR is "encircled" by hostile "capitalist" powers. Temporarily abandoned during World War II, the slogan of "capitalist encirclement" was revived immediately on the conclusion of hostilities.





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It was strongly emphasized in the election speeches of Soviet officials last February and found its most violent post-war expression in the Soviet reaction to Churchill's speech at Fulton, Missouri. The USSR will continue to use the same slogan to attack any joint resistance by the Western Powers to Soviet policy and to justify any future Soviet moves to enhance the "security" of the USSR.

## Belgian and Dutch Attitudes on Western Germany

Premier Spaak of Belgium, on the eve of the new session of the Council of Foreign Ministers, again has pressed upon French Foreign Minister Bidault demands that Belgium be included in any deliberations regarding a settlement for Western Germany. Spaak's action is consistent with positions advanced by himself and the Dutch Foreign Office in April. The Low Countries both oppose the French position regarding the boundaries and organization of Western Germany and hold views similar to those of Britain and the US. Britain would welcome Belgian-Dutch participation in any discussions of Western Germany but the Soviets clearly would oppose it and the French, while they have assented to participation, would probably try to exclude the Low Countries from the final vote.

Belgium and the Netherlands oppose the French plan for political separation of the Ruhr-Rhineland area from Germany and both desire that the area, except for minor border rectifications in their favor, remain part of a unified Germany under Allied economic control. They fear that internationalization would involve the extension of Soviet interests to their borders. They also fear that separation would prevent full-scale resumption of their important pre-war trade with the Ruhr-Rhineland and would reduce reparations payments for war damage from their most likely source. Belgium, moreover, considers that France would eventually dominate a separate Rhineland state and thus threaten Belgian economic and political stability. Elements opposing these views exist in both countries but they appear incapable of radically modifying the positions taken currently by either Government.





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## The Monarchist Issue in Italy

Tension has mounted in Italy as the Crown and the Government have vainly sought a formula for the transition from Monarchy to Republic. The King on legal grounds has refused to accept the provisional announcement of the referendum results by the Court of Cassation and has insisted that he will not officially relinquish his throne until the Court's final decision on 17 June. The Cabinet refused all compromise proposals for the interim period, and proclaimed that Premier de Gasperi automatically became Chief of State when the Court made its 10 June announcement. The King sharply protested the "illegality" of the Cabinet's proclamation and suddenly on 13 June left the country.

Both Monarchists and Republicans have utilized the current period of uncertainty to press their respective causes. The Southern Monarchists in particular have reiterated their demands for political separation and the revival of a Kingdom of the Two Sicilies. Demonstrations by both factions have thus far been controlled short of serious violence by efforts of both the Crown and the Government, but the situation remains extremely tense.

While it appears improbable, in view of the current international situation, that the demands for a separate Kingdom of the Two Sicilies will attract wide support, the Monarchist issue may continue as a disturbing factor in the Italian Republic. King Humbert, although promising to abide by the results of the referendum, has indicated a strong desire to maintain his throne. He made rapid strides in his belated pre-election campaign and may have valid grounds for believing that, had the elections been postponed, the Monarchy would have emerged victorious. The final count is not expected to reverse the referendum verdict, but may show some reduction in the pro-Republic majority. Moreover, the fact that Monarchist strength is concentrated in the South, where it represents an overwhelming majority of the electorate, will tend to give greater vitality to the cause. If fear of Soviet expansion and Communist domination should increase in Italy, the Monarchy might become the rallying point for non-Communist elements.





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## The Azerbaijan Settlement

Premier Qavam's success in reaching an agreement with Azerbaijani leaders on the terms which he originally proposed is qualified by the established presence of Soviet elements in Azerbaijan and the concessions which he has been compelled to make to the Soviet-supported Tudeh Party in the rest of Iran. The settlement, which, according to Azerbaijani leaders, was finally concluded on Soviet orders, represents a modification of the previous stand of the Soviet-supported "Democrats." The Azerbaijani "Army" is to be incorporated into the Central Iranian Army, land distribution and internal reform are to be carried out according to Qavam's proposals, the Azerbaijani have officially given up their bid for "autonomy," and Qavam is free to carry out his professed ambition to restore them to full allegiance to Tehran.

Qavam, however, will be hindered in his efforts to develop a unified and genuinely independent Iran by the presence of Soviet officers and men in key positions in the Azerbaijani "Army" and police, and by the growing power of the leftist Tudeh Party in the rest of Iran. In order to better his position in negotiations with the USSR, Qavam recently has played up to the Tudeh Party and has carried out severely repressive measures against conservative elements.

In the last analysis, however, Qavam's future success in maintaining Iran's independence will depend upon great-power policy. The Soviets appear to have recognized that their recent Iranian policy, while accomplishing its immediate military and economic objectives, was heavy-handed and over-hasty. Qavam's skill in mobilizing Iranian resistance and in exploiting world opinion through the UN apparently helped to convince the Soviets that gradual penetration (employed so effectively in Sinkiang) would succeed better. Accordingly, with their oil and military objectives assured, the Soviets could afford to withdraw full support from the Azerbaijani "Democrats." Moreover, the Soviets clearly feel that "time is on their side" in Iran and that the general economic backwardness of the country and the unpopular labor policy of the British oil companies will forward their cause.





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## Chinese Truce Proves Ineffective

The 15-day truce in China, which nominally began at noon on 7 June, appears to have been of little effect in the face of continued sporadic fighting and mutual charges of truce violation. Although these developments may have resulted from misunderstandings, they underscore the mutual distrust which prevents solution of the fundamental issues involved in Chinese civil strife. At best the brief truce period would merely have provided an opportunity for seeking further agreement on an approach toward implementation of the "January Agreement." Any progress in that direction is unlikely in present circumstances. The truce period was also required by both sides for regrouping preliminary to further operations. A resumption of full-scale hostilities is therefore unlikely prior to 22 June, but probable at about that date.

## Extremist Tendencies in Java and Sumatra

The inability of "Prime Minister" Sjahrir to obtain an agreement with the Dutch satisfactory to Indonesian aspirations has weakened his influence and strengthened the position of extremist "President" Soekarno. The Dutch "final offer" was disappointing primarily because it provides that Sumatra be included in the "Indonesian Republic" only if an orderly determination of Sumatran sentiment favors such inclusion.

Sjahrir is preparing counter proposals for Soekarno's approval prior to their submission to the Dutch. Meanwhile Soekarno, in view of increased Dutch military strength* as well as of the state of negotiations, has called upon the Javanese to be prepared to resist the Dutch by force.

Meanwhile extremists have become increasingly active. In Java they have massacred 600 Chinese. In Sumatra, the situation is unsettled outside the British-occupied areas at Medan, Padang and Palembang, all of which the extremists reportedly have sought to penetrate. The trend toward violence has aroused US anxiety for the preservation of oil field installations outside the British-occupied area.

* There are 21,000 Dutch troops in Java.





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# SPECIAL ARTICLES

## 1. Yugoslav Military Strength and Capabilities

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## YUGOSLAV MILITARY STRENGTH AND CAPABILITIES

The current Yugoslav war of nerves, threatening a forcible solution of the Trieste problem in the event that the Council of Foreign Ministers should fail to act favorably with respect to Yugoslavia's demands, directs attention to that country's military strength and capabilities.

The present Yugoslav Army, although the largest in the Balkans, is essentially an expansion of those Partisan bands which waged guerrilla warfare against the Germans from 1941 to 1945. As such it has certain military virtues, but still lacks the ability to conduct sustained offensive operations on a large scale.

At VE Day the Yugoslav Army numbered some 350,000 men. It reached a peak strength of 425,000 in October and has since been reduced to about 300,000 men.

Since VE Day a reorganization has been in progress in an effort to correct such deficiencies as the total lack of a supply system, the inadequacy of coordination and staff work, the lack of uniformity in organization and equipment, and the lack of training in large-scale operations. These deficiencies, however, have been only partially overcome. There is no immediate solution for the problem involved in the heterogeneity of such heavy weapons as are available,* or for the acute shortage of motor transport, engineering, signal, and fire control equipment and medical supplies. Training is impeded by the dearth of trained officers; technical specialists are almost entirely lacking.

The fanatical loyalty, proved leadership, and guerrilla skill of the present officer corps compensate in some degree for its lack of formal military education. In the ranks, however, the Partisan virtues have been diluted by general conscription. The rank and file of the Army are in consequence neither experienced guerrillas nor fanatical adherents of

* Artillery material, for example, consists principally of captured Italian and German types, supplemented by others of Soviet or Western origin.



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the Tito regime. This condition has required not only an extensive program of military training, but also a program of constant political indoctrination under the direction of political commissars assigned to all units of the Army. In addition OZNA, the secret police, and KNOJ, the security troops, with a combined strength of 80,000 men, are on constant guard against subversive tendencies.

Soviet influence is exercised directly by Soviet instructors and advisors attached to army and division headquarters. These, together with a large military mission at Belgrade, number some 5,000 men.

As reorganized, the Yugoslav Army includes 36 infantry divisions averaging only 5,000 men each and four armored divisions, two of which are still in the process of formation and training. The total number of armored vehicles is estimated at 250-300, including 110 Soviet medium tanks, 55 US light tanks, and 17 US 105-mm self-propelled howitzers.

The Yugoslav Air Force is estimated to have 328 combat type aircraft, of which 288 are Soviet Yak fighters, Stormovik ground attack planes, and PE-2 bombers, and 40 are Spitfires and Hurricanes believed to be unserviceable. Air force efficiency is impaired by insufficient training, poor maintenance, and lack of ground control equipment, but these conditions are being improved with Soviet assistance.

In the western and southern frontier regions of Yugoslavia rough terrain and poor communications generally favor defensive and guerrilla operations. The most feasible avenue of invasion would be from Trieste across the Julian Alps into the upper Sava River valley. The present Yugoslav Army is well able to defend these frontiers, including the hinterland of the Dalmatian coast, against any but the most determined and well-supported attack. On the other hand, it lacks the means to conduct large-scale and sustained offensive operations beyond the Yugoslav frontiers against determined and well-supported opposition.

Yugoslav strength in and immediately adjacent to Venezia Giulia has since February amounted to some 60,000 men with 80-100 tanks. These troops have been kept in a state of readiness; they have constructed defensive works, emplaced artillery, and observed war-time security measures.





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It is unlikely, however, that they would undertake overt offensive action without the support of a strategic reserve in the Ljubljana-Zagreb area, which was virtually denuded of troops in February to reinforce Venezia Giulia. There is no evidence of the build-up of such a reserve.

Yugoslav military capabilities and intentions in Venezia Giulia appear to be essentially defensive. The concentration forward in February was apparently designed to impress Anglo-American authorities and the local inhabitants and to provide support for covert aggressive activities in Venezia Giulia. A Yugoslav coup in the Trieste area is not to be excluded as a capability, but it would probably be accomplished under the guise of a local action. The military concentration in Venezia Giulia would then serve as defensive precaution against a possibly violent Anglo-American reaction.



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